

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input checked="" type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name City of McBain	County Missaukee
Fiscal Year End April 30, 2007	Opinion Date May 17, 2007	Date Audit Report Submitted to State September 6, 2007	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

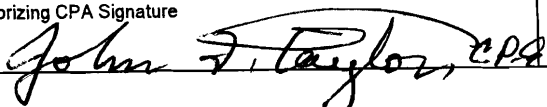
We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES NO **Check each applicable box below.** (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) Baird, Cotter and Bishop, P.C.		Telephone Number 231-775-9789	
Street Address 134 W. Harris Street		City Cadillac	State MI
Zip 49601			
Authorizing CPA Signature 	Printed Name John F. Taylor	License Number 1101008199	

CITY OF MCBAIN, MICHIGAN

APRIL 30, 2007

Baird, Cotter and Bishop, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

134 WEST HARRIS STREET CADILLAC, MICHIGAN 49601

PHONE: 231-775-9789 FAX: 231-775-9749

www.bcbcpa.com

CITY OF MCBAIN, MICHIGAN

APRIL 30, 2007

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Baird, Cotter and Bishop, P.C.

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134 WEST HARRIS STREET CADILLAC, MICHIGAN 49601
PHONE: 231-775-9789 FAX: 231-775-9749
www.bcbcpa.com

May 17, 2007

INDEPENDENT AUDITORS' REPORT

To the Mayor and City Council
City of McBain, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of McBain, Michigan, as of and for the year ended April 30, 2007, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of McBain, Michigan, management. Our responsibility is to express opinions on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of McBain Michigan, as of April 30, 2007, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 17, 2007, on our consideration of the City of McBain's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages iii through xiii and 29, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of McBain, Michigan, basic financial statements. The introductory section, combining and individual nonmajor fund financial statements, and other supplementary information are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

BAIRD, COTTER AND BISHOP, P.C.

Baird, Cotter & Bishop, P.C.

CITY OF MCBAIN, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED APRIL 30, 2007

Management's Discussion and Analysis

The management of the City of McBain, Michigan ("the City") offers this narrative overview and analysis of the financial activities of the City for the fiscal year ended April 30, 2007, for the benefit of the readers of these financial statements. This management's discussion and analysis is intended to assist the reader in focusing on significant financial issues and to provide an overview of the City's financial activity. We encourage readers to consider the information presented here in conjunction with the financial statements as a whole, which can be found in this report.

Financial Highlights

Government-Wide

- ❖ The assets of the City exceeded its liabilities at the close of this fiscal year by \$3,775,412 (shown as *Net Assets*), representing a decrease of \$50,371 from the previous fiscal year. Governmental Funds had a \$4,704 increase, while Business-Type activities had a \$55,075 decrease.

Fund Level Financial Highlights

- ❖ As of April 30, 2007, the governmental funds of the City of McBain reported combined ending fund balances of \$332,020, of which \$312,453 was unreserved and undesignated.
- ❖ The unreserved fund balance of the City's General Fund increased this year to \$230,170, or 53.46% of total General Fund expenditures.

Long-Term Debt

- ❖ The City of McBain's total long-term debt decreased by \$11,000 during the fiscal year.

Overview of the Financial Statements

The City of McBain's financial statements consist of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. The report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide Financial Statements This report includes government-wide statements as required by GASB Statement Number 34. The *government-wide financial statements* are designed to provide a broad overview of the City's financial position. The Statement of Net Assets and the Statement of Activities are two financial statements that report information about the City as a whole, and provide measurements of long-term trends. They are presented using a method of accounting that is similar to a private-sector business.

The *Statement of Net Assets* (Pages 1-2) presents information on all of the City's assets and liabilities, the difference between the two being reported as the Net Assets of the City. Over time, increases or decreases in net assets can serve as a useful indicator of whether the financial

CITY OF MCBAIN, MICHIGAN
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR FISCAL YEAR ENDED APRIL 30, 2007

position of the City is improving or deteriorating. An increase in net assets would indicate an improvement in financial condition. On the other hand, a consistent decrease over time in net assets may indicate a decline in the financial health of an organization.

The *Statement of Activities* (Page 3) gives information on the revenues and expenses causing the underlying change in the government's net assets during the most recent fiscal year. All changes in net assets are reported as soon as the change occurs, regardless of the timing of related cash flows.

Both of these statements distinguish functions of the City that are principally supported by property taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or most of their costs through user fees and charges (business-type activities). Governmental activities of the City include general government, public safety, major and local streets, public works, culture and recreation. Business-type activities of the City include water and sewer utility services.

Focus on Funds

Traditional users of governmental financial statements will find the Fund Financial Statements presentation more familiar. The focus has shifted, however, to Major Funds, rather than the previous focus on fund types. The City's major Governmental Funds include the General Fund, Major Street Fund, Local Street Fund and Fire Fund. The major Proprietary Funds include the Water Fund and Sewer Fund.

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Each fund is operated similar to a completely separate entity, with its own set of balancing accounts. The City of McBain uses fund accounting to ensure compliance with finance-related legal requirements. There are three basic types of funds: governmental funds, proprietary funds, and fiduciary funds.

Governmental Funds Many of the City's basic services are reported in the governmental funds. Governmental funds account for essentially the same functions as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. This is known as the modified accrual basis of accounting. Under this reporting system, capital items, debt payments and certain other items are treated differently than on the government-wide statements. These items are recorded in the governmental fund statements on the Statement of Revenues, Expenditures and Changes in Fund Balance as expenditures. No depreciation is recorded on capital items. The balance sheet for governmental funds does not include any capital items or long-term debt. Governmental funds for the City include the General Fund as well as the special revenue and capital project funds.

CITY OF MCBAIN, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED APRIL 30, 2007

Proprietary Funds Proprietary funds account for services for which the City charges its customers for the services they are provided. These charges can be to external customers or other agencies within the City. There are two types of proprietary funds:

- Enterprise funds are used to report business-like activities of the City. These activities intend to recover the full cost of the services through the fee charged to the customers. The City has two enterprise funds, which are the Water Fund and Sewer Fund.
- Internal Service funds are the second type of proprietary funds. These funds provide services to other departments within the City. The City does not maintain any internal service funds.

Fiduciary Funds Fiduciary funds are used to account for resources held for the benefit of parties outside the government. These funds are not reflected in the government-wide financial statements because the resources of the funds are not available for supporting the City's programs. These funds are accounted for using the full accrual method of accounting, much like the Proprietary funds.

Component Units The City's financial report includes reporting on separate legal entities for which the City has some level of financial responsibility. These funds are shown in a separate column. The City's component units include the Downtown Development Authority and the Tax Increment Finance Authority.

Notes to the Financial Statements

The Notes to the Basic Financial Statements provide additional information that is essential to a complete understanding of the information provided in both the government-wide and the fund financial statements. The notes can be found beginning on Page 15 of this report.

Other Information

In addition to the basic financial statements and accompanying notes, this report further presents Required Supplementary Information (RSI) that explains and supports the information presented in the financial statements. This information can be found on Page 29 of this report.

Government-Wide Financial Analysis

The Statement of Net Assets is the first statement in the Government-Wide Financial Statements section of this document. This statement is useful for providing an indicator of the City's financial position over time. The Net Assets of the City are \$3,775,412 at April 30, 2007, meaning that the City's assets were greater than its liabilities by this amount. As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. A comparison with the previous fiscal year is presented in order to show the change in net assets over the previous year.

CITY OF MCBAIN, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED APRIL 30, 2007

City of McBain
Net Assets

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total Primary Government</u>	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Current and Other Assets	\$ 345,055	\$ 386,110	\$ 214,433	\$ 227,161	\$ 559,488	\$ 613,271
Capital Assets	1,940,923	1,935,076	1,332,626	1,391,158	3,273,549	3,326,234
Total Assets	\$ 2,285,978	\$ 2,321,186	\$ 1,547,059	\$ 1,618,319	\$ 3,833,037	\$ 3,939,505
Current and Other Liabilities	\$ 12,797	\$ 52,709	\$ 14,828	\$ 19,013	\$ 27,625	\$ 71,722
Long-Term Liabilities	0	0	30,000	42,000	30,000	42,000
Total Liabilities	\$ 12,797	\$ 52,709	\$ 44,828	\$ 61,013	\$ 57,625	\$ 113,722
Net Assets:						
Invested in Capital Assets						
Net of Related Debt	\$ 1,940,923	\$ 1,935,076	\$ 1,290,626	\$ 1,338,158	\$ 3,231,549	\$ 3,273,234
Restricted	0	0	41,936	44,176	41,936	44,176
Unrestricted	332,258	333,401	169,669	174,972	501,927	508,373
Total Net Assets	\$ 2,273,181	\$ 2,268,477	\$ 1,502,231	\$ 1,557,306	\$ 3,775,412	\$ 3,825,783

The most significant portion of the City's Net Assets is the investment in capital assets (e.g. land, buildings, equipment, infrastructure, and others), less any related debt that is outstanding that the City used to acquire or construct the asset. The City has \$501,927 in unrestricted net assets. These assets represent resources that are available for appropriation.

The total net assets of the City decreased \$50,371 in this fiscal year, which is an indicator that the City experienced negative financial growth during the year. As a result, the City ended the fiscal year in slightly worse condition than when the year started.

The following table summarizes the results of the changes in the Net Assets for the City. The condensed information was derived from the Government-wide Statement of Activities.

CITY OF MCBAIN, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED APRIL 30, 2007

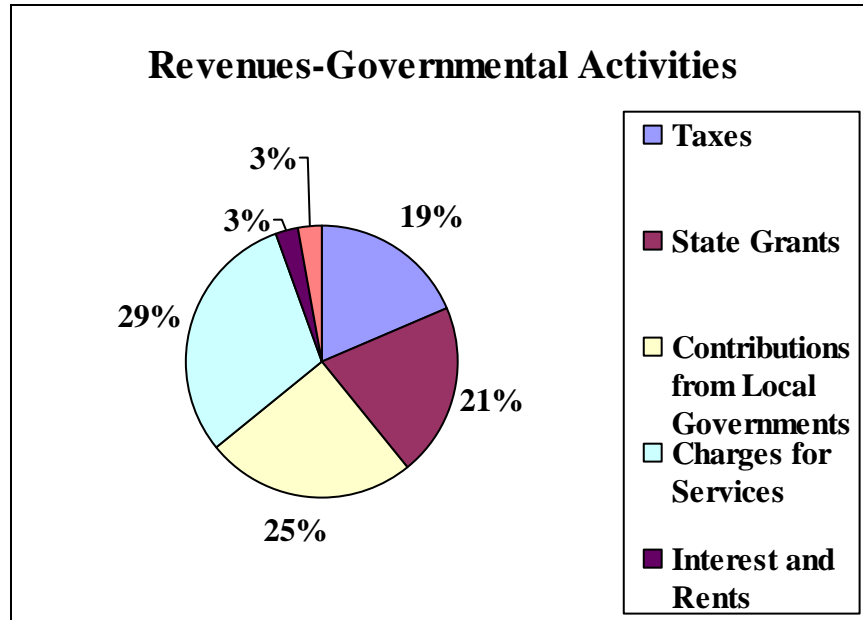
City of McBain
Change in Net Assets

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total Primary Government</u>	
	2007	2006	2007	2006	2007	2006
<u>Revenues</u>						
Program Revenues						
Charges for Services	\$ 180,218	\$ 147,838	\$ 77,288	\$ 68,948	\$ 257,506	\$ 216,786
Operating Grants and Contributions	90,390	84,480	800	0	91,190	84,480
Capital Grants	125,556	99,000	0	0	125,556	99,000
General Revenues						
Property Taxes and Assessments	109,871	105,876	11,091	10,667	120,962	116,543
State Shared Revenue	53,296	54,515	0	0	53,296	54,515
Contributions from Local Units	0	57,666	0	0	0	57,666
Investment Earnings	7,583	5,884	3,522	3,527	11,105	9,411
Gain on Disposal of Capital Assets	0	2,271	0	0	0	2,271
Transfers	(5,000)	(5,000)	5,000	5,000	0	0
Other	24,538	8,620	1,743	1,743	26,281	10,363
Total Revenues	\$ 586,452	\$ 561,150	\$ 99,444	\$ 89,885	\$ 685,896	\$ 651,035
<u>Expenses</u>						
Legislative	\$ 3,950	\$ 3,525	\$ 0	\$ 0	\$ 3,950	\$ 3,525
General Government	188,074	150,373	0	0	188,074	150,373
Public Safety	71,501	50,579	0	0	71,501	50,579
Public Works	190,824	196,064	0	0	190,824	196,064
Planning	8,852	9,137	0	0	8,852	9,137
Recreation and Culture	17,895	16,565	0	0	17,895	16,565
Economic Development/Assistance	19,058	4,289	0	0	19,058	4,289
Capital Outlay	7,437	6,445	0	0	7,437	6,445
Interest on Long-Term Debt	0	809	0	0	0	809
Water and Sewer	0	0	154,519	141,349	154,519	141,349
Other Functions	74,157	71,224	0	0	74,157	71,224
Unallocated Depreciation	0	11,139	0	0	0	11,139
Total Expenses	\$ 581,748	\$ 520,149	\$ 154,519	\$ 141,349	\$ 736,267	\$ 661,498
Increase (Decrease) in Net Assets	\$ 4,704	\$ 41,001	\$ (55,075)	\$ (51,464)	\$ (50,371)	\$ (10,463)
Beginning Net Assets	2,268,477	2,227,476	1,557,306	1,608,770	3,825,783	3,836,246
Ending Net Assets	\$ 2,273,181	\$ 2,268,477	\$ 1,502,231	\$ 1,557,306	\$ 3,775,412	\$ 3,825,783

CITY OF MCBAIN, MICHIGAN
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR FISCAL YEAR ENDED APRIL 30, 2007

Governmental Activities

The following chart details the revenue sources for the governmental activities of the City for the fiscal year ended April 30, 2007:

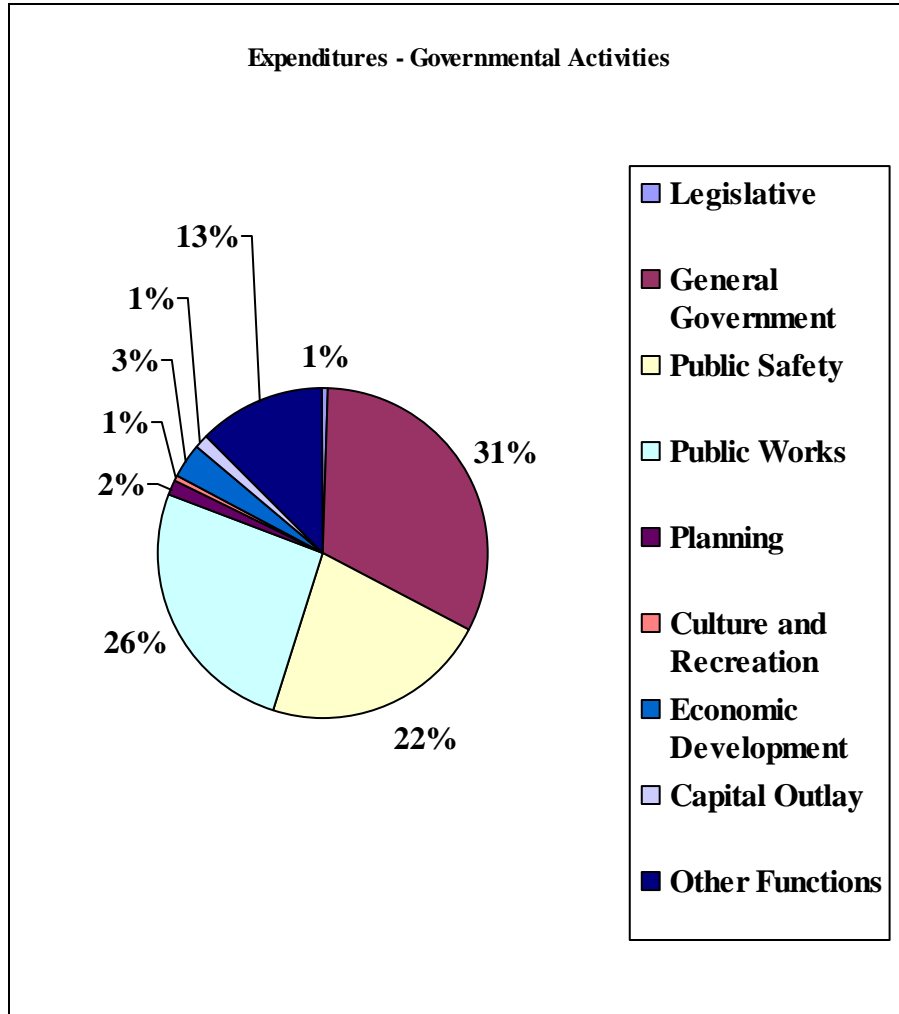


The most significant portion of the revenue for all governmental activities of the City of McBain comes from Charges for Services (29%). This figure includes refuse collection fees, charges to other funds and component units for use of City-owned equipment, and charges to other funds and component units for labor.

State shared revenue is collected by the State of Michigan and distributed to local governments by formula allocation of portions of the State sales tax and motor fuel and weight taxes. In 2007, the amount of state shared revenue received by the City once again trended downward, representing declining sales tax collections and discretionary reductions by the State in revenue sharing payments.

CITY OF MCBAIN, MICHIGAN
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR FISCAL YEAR ENDED APRIL 30, 2007

The following chart depicts expenses of the governmental activities of the City for the fiscal year ended April 30, 2007:



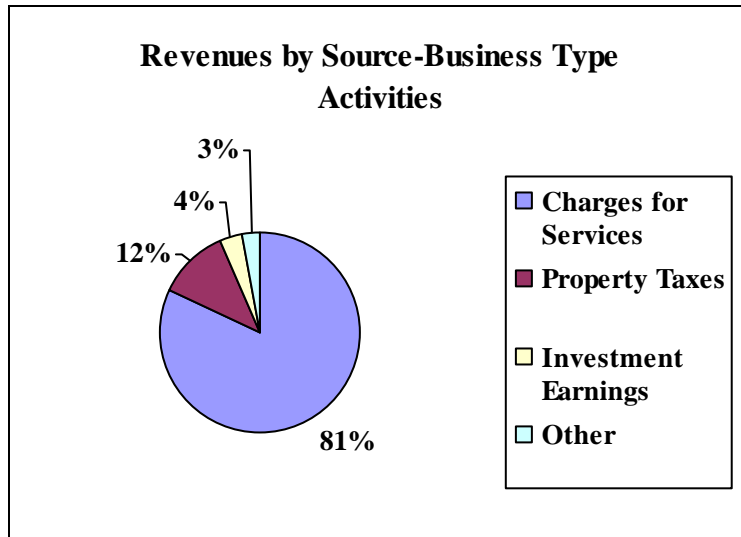
The City's governmental activities expenses are dominated by the General Government expenses that total 31% of total expenses. The City spent \$188,074 in FY2007 on General Government. Public Works represented the next largest expense at \$152,616, or 26% of total expenses within the governmental activities. Expenses in the Major Street Fund (\$40,427) and Local Street Fund (\$30,918) represent a large part of the Public Works expenditures.

Business-Type Activities

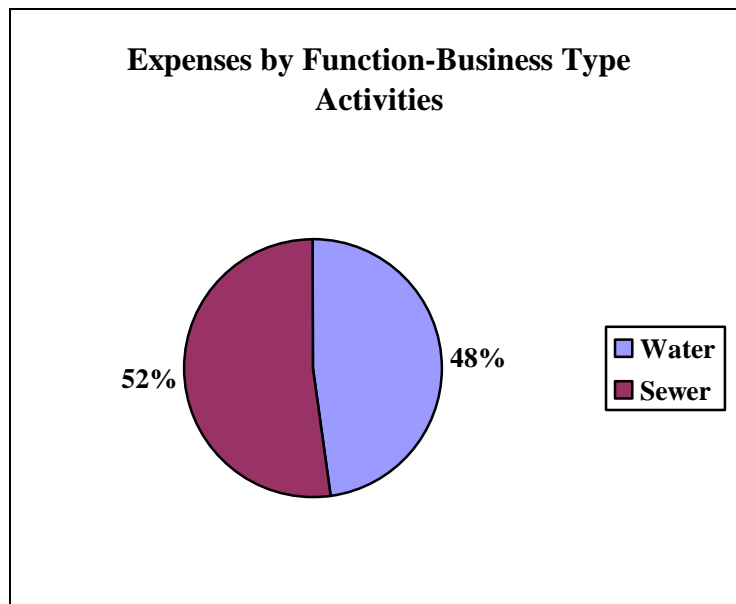
The following charts illustrate the revenue and expense activity within the City's business-type activities. These activities accounted for a decrease of \$55,075 in the City's Net Assets.

The Business-type activities of the City include the Water Fund and Sewer Fund, which provide water and sewer utility services to City residents as well as commercial customers.

CITY OF MCBAIN, MICHIGAN
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR FISCAL YEAR ENDED APRIL 30, 2007



The Water and Sewer activities represent all of the business-type activities of the City.



Financial Analysis of the Government's Funds

Governmental Activities – At the completion of the City's fiscal year ended April 30, 2007, its governmental funds reported fund balances of \$332,020. All of this amount is unreserved. This amount includes \$19,567 designated for city hall equipment.

General Fund – The General Fund is the main operating fund of the City. The General Fund increased its fund balance in this fiscal year by \$12,728, bringing the balance to \$230,170.

CITY OF MCBAIN, MICHIGAN
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR FISCAL YEAR ENDED APRIL 30, 2007

Public Safety and Public Works functions in the General Fund exceeded appropriations due to recording the value of security cameras, a generator, fire barn addition, and Maple Street lighting project that the TIFA paid for on the City's behalf.

Major Street Fund – The fund balance of the Major Street Fund ended the year at \$23,039. This was an increase of \$9,871 from the previous year.

Local Street Fund – The fund balance of the Local Street fund is \$2,714, a reduction of \$8,338 from the previous year.

Fire Fund – The Fire Fund ended the year with a \$2,052 fund balance. This is an improvement of \$2,285 over last year.

Proprietary Funds The City's proprietary funds provide virtually the same information as the government-wide statements; however more detail may be found in the fund financial statements.

Water Fund – The Water Fund ended this fiscal year with \$94,819 in unrestricted net assets. Operating revenues increased from \$35,150, in 2006 to \$41,322, a 17.56% increase. This fund experienced an increase in interest income of \$157, or 8.57% over the previous fiscal year. The net assets of the fund decreased by \$29,243, in 2007. This fund has no long-term debt and remains in sound fiscal condition moving forward.

Sewer Fund – The Sewer Fund ended this fiscal year with \$45,540 in unrestricted net assets. Operating revenues increased from \$33,798, in 2006 to \$35,966, a 6.41% increase. The net assets of the fund decreased by \$25,832 in 2007.

Capital Asset and Debt Administration

Capital Assets. The City's investment in capital assets for the governmental and business-type activities as of April 30, 2007 amounted to \$3,273,549 (net of accumulated depreciation). Capital assets of the City include any items purchased that cost in excess of \$5,000 and have an expected useful life of over one year. The City has invested in a broad range of capital assets, as detailed below:

CITY OF MCBAIN, MICHIGAN
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR FISCAL YEAR ENDED APRIL 30, 2007

City of McBain
Capital Assets as of April 30, 2007

	Governmental Activities	Business-Type Activities	Total Primary Government
Land and Land Improvements	\$ 725,922	\$ 88,703	\$ 814,625
Infrastructure	949,925	0	949,925
Buildings	295,325	90,537	385,862
Improvements Other Than Buildings	0	2,760,713	2,760,713
Machinery and Equipment	1,011,885	154,948	1,166,833
Total Assets	\$ 2,983,057	\$ 3,094,901	\$ 6,077,958
Less Accumulated Depreciation	1,042,134	1,762,275	2,804,409
Fixed Assets, Net of Depreciation	\$ 1,940,923	\$ 1,332,626	\$ 3,273,549

Major capital asset events during FY2007 included the following:

- Maple Street lighting project at a total cost of \$28,889.
- Fire barn addition at a total cost of \$56,337.
- Security cameras totaling \$18,476.
- A new fire barn generator for \$21,855.
- A power line extension for the treatment pond totaling \$12,697.

Additional information regarding the City's capital assets can be found in the Notes to Financial Statements section.

Long-Term Debt. As of April 30, 2007, the City had total bonded debt outstanding of \$42,000 which is backed by the full faith and credit of the City. The City levies 1.5 mills on all real property to help service this debt which is reported in the Sewer Fund.

Economic Outlook

In August 2006 a purchase agreement was signed by NextGen Energy agreeing to purchase from the City of McBain an eighty-acre parcel of land at the north city limits for \$800,000. This land is zoned *Industrial* and NextGen intends to use it for the purpose of constructing a 59 million gallon per year ethanol plant. The closing date is October 2007. Employment estimates are 55 direct jobs and between 100 and 200 indirect jobs. Ground breaking is expected to be in the Fall of 2007.

An Industrial Development District has been created by the City of McBain to enable the enactment of a tax abatement of 50% of real and personal property taxes. The estimated value of the plant is approximately \$120 million, so the property tax estimate to the City of McBain is over \$400,000 per year.

CITY OF MCBAIN, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED APRIL 30, 2007

This action follows the completion of an alternate power feasibility study centering on the excess steam power produced by Viking Energy in the McBain Industrial Park. The study concluded that the excess steam could save an ethanol plant many millions of dollars in thermal energy used to make ethanol.

In the Spring of 2007 the Biewer Lumber Company in the McBain Industrial Park began operation of its \$4 million wood-chip fired power plant.

The McBain Tax Increment Finance Authority (TIFA) took action to stabilize some of its investments. It refinanced the Action Tool building and made provisions for escrowing the property taxes. TIFA also refinanced the Grape Arbor restaurant note. TIFA is foreclosing on the building occupied by Politech Machine, and is gaining ownership of the building and some equipment. Another machine operation is negotiating to move into this building, and utilize the equipment.

Lot 4 of the Industrial Park was purchased by two local area residents, and the site was cleaned of a group of greenhouses that had collapsed during a heavy snowfall in recent years. This site is now ready for development.

The City of McBain sold a four-acre parcel of property to the Silver Oaks Company, owner of Autumnwood nursing facility in McBain. The property is adjacent to the nursing home. An agreement was reached that Silver Oaks must build an assisted living home within two years of the land purchase, which was in March 2007.

Other major commercial happenings in the City of McBain during this past fiscal year include the moving of Great Lakes Medical Care offices into their new building in downtown McBain, which nearly triples the size of its former building. Also, a new ambulance building was constructed along with a remodeling of the adjacent city offices.

The former Dutch Hutch building site has been demolished and is being readied for construction of a parking lot in downtown McBain by its Downtown Development Authority (DDA). The DDA also purchased the former Great Lakes Medical Building, and has received inquiries on sale or lease.

Also in downtown McBain, the Pine River Cable television company moved into its new quarters in the McBain Professional Building, and the company is growing rapidly. Other new businesses in McBain include DD's Ceramics and Gifts and Stoney Corners Massage.

Contacting the City's Finance Department

This financial report is designed to provide the wide variety of users of this document with a general overview of the City's finances and demonstrate the City's accountability for the money entrusted to it. If you have any questions regarding this report or need additional financial information, please direct your requests to the City of McBain, 508 West Maple Street, McBain, Michigan 49657, or call us at (231) 825-2322.

CITY OF MCBAIN, MICHIGAN

STATEMENT OF NET ASSETS

APRIL 30, 2007

	PRIMARY GOVERNMENT			COMPONENT UNITS
	GOVERNMENTAL ACTIVITIES	BUSINESS TYPE ACTIVITIES	TOTALS	
<u>ASSETS</u>				
Cash	\$ 325,444	\$ 172,057	\$ 497,501	\$ 266,518
Investments	0	0	0	457,585
Receivables				
Taxes	238	0	238	5,638
Accounts	320	440	760	0
Interest	0	0	0	493
Mortgages and Notes	0	0	0	583,166
External Parties (Fiduciary Funds)	2,006	0	2,006	0
Due from Other Governments	17,047	0	17,047	37
Total Current Assets	\$ 345,055	\$ 172,497	\$ 517,552	\$ 1,313,437
<u>RESTRICTED ASSETS</u>				
Cash	\$ 0	\$ 37,627	\$ 37,627	\$ 0
Property Assessments Receivable	0	4,309	4,309	0
Total Restricted Assets	\$ 0	\$ 41,936	\$ 41,936	\$ 0
<u>CAPITAL ASSETS</u>				
Land and Land Improvements	\$ 725,922	\$ 88,703	\$ 814,625	\$ 91,050
Infrastructure	949,925	0	949,925	0
Buildings	295,325	90,537	385,862	150,000
Improvements Other Than Buildings	0	2,760,713	2,760,713	0
Machinery and Equipment	1,011,885	154,948	1,166,833	25,000
	\$ 2,983,057	\$ 3,094,901	\$ 6,077,958	\$ 266,050
Less Accumulated Depreciation	1,042,134	1,762,275	2,804,409	0
Net Capital Assets	\$ 1,940,923	\$ 1,332,626	\$ 3,273,549	\$ 266,050
TOTAL ASSETS	\$ 2,285,978	\$ 1,547,059	\$ 3,833,037	\$ 1,579,487

The accompanying notes are an integral part of the financial statements.

CITY OF MCBAIN, MICHIGAN

STATEMENT OF NET ASSETS

APRIL 30, 2007

	PRIMARY GOVERNMENT			COMPONENT UNITS
	GOVERNMENTAL ACTIVITIES	BUSINESS TYPE ACTIVITIES	TOTALS	
<u>LIABILITIES</u>				
<u>CURRENT LIABILITIES</u>				
Accounts Payable	\$ 8,928	\$ 2,653	\$ 11,581	\$ 890
Salaries Payable	3,832	0	3,832	0
Accrued Interest	0	175	175	0
Due to Other Governments	37	0	37	0
Current Portion of Long-Term Debt	0	12,000	12,000	11,954
Total Current Liabilities	\$ 12,797	\$ 14,828	\$ 27,625	\$ 12,844
<u>LONG-TERM LIABILITIES</u>				
Revenue Bonds	\$ 0	\$ 30,000	\$ 30,000	\$ 0
TOTAL LIABILITIES	\$ 12,797	\$ 44,828	\$ 57,625	\$ 12,844
<u>EQUITY</u>				
Net Assets:				
Invested in Capital Assets, Net of Related Debt	\$ 1,940,923	\$ 1,290,626	\$ 3,231,549	\$ 266,050
Restricted for Debt Service	0	41,936	41,936	0
Unrestricted	332,258	169,669	501,927	1,300,593
TOTAL NET ASSETS	\$ 2,273,181	\$ 1,502,231	\$ 3,775,412	\$ 1,566,643

The accompanying notes are an integral part of the financial statements.

CITY OF MCBAIN, MICHIGAN

STATEMENT OF ACTIVITIES

YEAR ENDED APRIL 30, 2007

FUNCTIONS/PROGRAMS	PROGRAM REVENUES				NET (EXPENSES) REVENUES AND CHANGE IN NET ASSETS				
	EXPENSES	CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	PRIMARY GOVERNMENT			COMPONENT UNITS	
					GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTALS		
PRIMARY GOVERNMENT									
<u>GOVERNMENTAL ACTIVITIES</u>									
Legislative	\$ 3,950	\$ 0	\$ 0	\$ 0	\$ (3,950)	\$ 0	\$ (3,950)	\$ 0	
General Government	188,074	2,978	0	0	(185,096)	0	(185,096)	0	
Public Safety	71,501	0	21,400	96,667	46,566	0	46,566	0	
Public Works	190,824	177,240	68,990	28,889	84,295	0	84,295	0	
Planning	8,852	0	0	0	(8,852)	0	(8,852)	0	
Recreation and Culture	17,895	0	0	0	(17,895)	0	(17,895)	0	
Economic Development and Assistance	19,058	0	0	0	(19,058)	0	(19,058)	0	
Capital Outlay	7,437	0	0	0	(7,437)	0	(7,437)	0	
Other Functions	74,157	0	0	0	(74,157)	0	(74,157)	0	
Total Governmental Activities	\$ 581,748	\$ 180,218	\$ 90,390	\$ 125,556	\$ (185,584)	\$ 0	\$ (185,584)	\$ 0	
<u>BUSINESS-TYPE ACTIVITIES</u>									
Water System	\$ 73,354	\$ 41,322	\$ 800	\$ 0	\$ 0	\$ (31,232)	\$ (31,232)	\$ 0	
Sewer System	81,165	35,966	0	0	0	(45,199)	(45,199)	0	
Total Business-Type Activities	\$ 154,519	\$ 77,288	\$ 800	\$ 0	\$ 0	\$ (76,431)	\$ (76,431)	\$ 0	
TOTAL PRIMARY GOVERNMENT	\$ 736,267	\$ 257,506	\$ 91,190	\$ 125,556	\$ (185,584)	\$ (76,431)	\$ (262,015)	\$ 0	
<u>COMPONENT UNITS</u>									
Downtown Development Authority	\$ 13,492	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ (13,492)	
Tax Increment Finance Authority	418,238	0	3,735	0	0	0	0	\$ (414,503)	
TOTAL COMPONENT UNITS	\$ 431,730	\$ 0	\$ 3,735	\$ 0	\$ 0	\$ 0	\$ 0	\$ (427,995)	
<u>GENERAL REVENUES</u>									
Property Tax					\$ 109,871	\$ 11,091	\$ 120,962	\$ 262,063	
State Shared Revenue					53,296	0	53,296	0	
Investment Earnings					7,583	3,522	11,105	52,940	
Loss on Loan Foreclosure					0	0	0	(17,150)	
Gain on Disposal of Capital Assets					0	0	0	4,392	
Transfers					(5,000)	5,000	0	0	
Other					24,538	1,743	26,281	225	
Total General Revenues					\$ 190,288	\$ 21,356	\$ 211,644	\$ 302,470	
Change in Net Assets					\$ 4,704	\$ (55,075)	\$ (50,371)	\$ (125,525)	
<u>NET ASSETS</u> - Beginning of Year					2,268,477	1,557,306	3,825,783	1,692,168	
<u>NET ASSETS</u> - End of Year					\$ 2,273,181	\$ 1,502,231	\$ 3,775,412	\$ 1,566,643	

The accompanying notes are an integral part of the financial statements.

CITY OF MCBAIN, MICHIGAN
GOVERNMENTAL FUNDS

BALANCE SHEET
APRIL 30, 2007

	GENERAL	MAJOR STREET	LOCAL STREET	FIRE FUND	NON- MAJOR FUNDS	TOTALS
<u>ASSETS</u>						
Cash	\$ 224,744	\$ 5,452	\$ 18,884	\$ 2,319	\$ 74,045	\$ 325,444
Receivables						
Taxes	238	0	0	0	0	238
Accounts	320	0	0	0	0	320
Due from Other Funds	8,204	11,375	0	0	0	19,579
Due from Other Governments	7,356	7,250	2,441	0	0	17,047
TOTAL ASSETS	\$ 240,862	\$ 24,077	\$ 21,325	\$ 2,319	\$ 74,045	\$ 362,628
<u>LIABILITIES AND FUND BALANCE</u>						
<u>LIABILITIES</u>						
Accounts Payable	\$ 6,585	\$ 1,038	\$ 1,038	\$ 267	\$ 0	\$ 8,928
Salaries Payable	3,832	0	0	0	0	3,832
Due to Other Funds	0	0	17,573	0	0	17,573
Due to Other Governments	37	0	0	0	0	37
Deferred Revenue	238	0	0	0	0	238
Total Liabilities	\$ 10,692	\$ 1,038	\$ 18,611	\$ 267	\$ 0	\$ 30,608
<u>FUND BALANCE</u>						
Unreserved:						
Designated for:						
City Hall Equipment	\$ 0	\$ 0	\$ 0	\$ 0	\$ 19,567	\$ 19,567
Undesignated	230,170	23,039	2,714	2,052	0	257,975
Undesignated, Reported in						
Special Revenue Funds	0	0	0	0	54,478	54,478
Total Fund Balance	\$ 230,170	\$ 23,039	\$ 2,714	\$ 2,052	\$ 74,045	\$ 332,020
TOTAL LIABILITIES AND FUND BALANCE	\$ 240,862	\$ 24,077	\$ 21,325	\$ 2,319	\$ 74,045	\$ 362,628

The accompanying notes are an integral part of the financial statements.

CITY OF MCBAIN, MICHIGAN
GOVERNMENTAL FUNDS

RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET ASSETS
APRIL 30, 2007

Total Fund Balances for Governmental Funds		\$	332,020
Amounts Reported for Governmental Activities in the Statement of Net Assets are Different Because:			
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.			
Fixed Assets	\$	2,983,057	
Accumulated Depreciation		<u>(1,042,134)</u>	1,940,923
Receivables not expected to be collected within sixty days are treated as deferred revenue in the governmental funds			
Personal Property Taxes Receivable			<u>238</u>
NET ASSETS OF GOVERNMENTAL ACTIVITIES		\$	<u><u>2,273,181</u></u>

The accompanying notes are an integral part of the financial statements.

CITY OF MCBAIN, MICHIGAN
GOVERNMENTAL FUNDS

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

YEAR ENDED APRIL 30, 2007

	GENERAL	MAJOR STREET	LOCAL STREET	FIRE	NON- MAJOR FUNDS	TOTALS
<u>REVENUES</u>						
Taxes	\$ 109,745	\$ 0	\$ 0	\$ 0	\$ 0	\$ 109,745
State Grants	53,296	50,807	18,183	0	0	122,286
Contributions from Local Units	125,556	0	0	21,400	0	146,956
Charges for Services	178,338	0	0	0	1,880	180,218
Interest and Rents	13,957	491	422	28	693	15,591
Other Revenue	2,372	0	0	2,798	11,360	16,530
Total Revenues	\$ 483,264	\$ 51,298	\$ 18,605	\$ 24,226	\$ 13,933	\$ 591,326
<u>EXPENDITURES</u>						
Legislative	\$ 3,950	\$ 0	\$ 0	\$ 0	\$ 0	\$ 3,950
General Government	162,821	0	0	0	25,253	188,074
Public Safety	96,667	0	0	32,941	0	129,608
Public Works	80,271	41,427	30,918	0	0	152,616
Planning	8,852	0	0	0	0	8,852
Culture and Recreation	3,842	0	0	0	0	3,842
Economic Development and Assistance	0	0	0	0	19,058	19,058
Capital Outlay	0	0	0	0	7,437	7,437
Other Functions	74,158	0	0	0	0	74,158
Total Expenditures	\$ 430,561	\$ 41,427	\$ 30,918	\$ 32,941	\$ 51,748	\$ 587,595
Excess (Deficiency) of Revenues Over Expenditures	\$ 52,703	\$ 9,871	\$ (12,313)	\$ (8,715)	\$ (37,815)	\$ 3,731
<u>OTHER FINANCING SOURCES (USES)</u>						
Transfers In	\$ 0	\$ 0	\$ 3,975	\$ 11,000	\$ 20,000	\$ 34,975
Transfers Out	(39,975)	0	0	0	0	(39,975)
Total Other Financing Sources (Uses)	\$ (39,975)	\$ 0	\$ 3,975	\$ 11,000	\$ 20,000	\$ (5,000)
Net Change in Fund Balance	\$ 12,728	\$ 9,871	\$ (8,338)	\$ 2,285	\$ (17,815)	\$ (1,269)
<u>FUND BALANCE -</u>						
Beginning of Year (Deficit)	217,442	13,168	11,052	(233)	91,860	333,289
<u>FUND BALANCE -</u>						
End of Year	\$ 230,170	\$ 23,039	\$ 2,714	\$ 2,052	\$ 74,045	\$ 332,020

The accompanying notes are an integral part of the financial statements.

CITY OF MCBAIN, MICHIGAN
GOVERNMENTAL FUNDS

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
YEAR ENDED APRIL 30, 2007

Net change in Fund Balance - Total Governmental Funds	\$ (1,269)
Amounts reported for governmental activities are different because:	
Governmental funds report capital outlays as expenditures in the statement of activities, these costs are allocated over their estimated useful lives as depreciation.	
Depreciation Expense	(119,710)
Capital Outlay	125,557
Under the modified accrual basis of accounting, revenue is recognized when measurable and available. The entity wide statements recognize revenue when earned.	
Deferred Revenue at the beginning of the year	(112)
Deferred Revenue at the end of the year	238
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u>\$ 4,704</u>

The accompanying notes are an integral part of the financial statements.

CITY OF MCBAIN, MICHIGAN
PROPRIETARY FUNDS
STATEMENT OF NET ASSETS
APRIL 30, 2007

	<u>BUSINESS TYPE ACTIVITIES - ENTERPRISE FUNDS</u>		
	MAJOR FUNDS		
	WATER FUND	SEWER FUND	TOTALS
<u>ASSETS</u>			
<u>CURRENT ASSETS</u>			
Cash	\$ 125,049	\$ 47,008	\$ 172,057
Receivables			
Accounts	220	220	440
Total Current Assets	\$ 125,269	\$ 47,228	\$ 172,497
<u>NONCURRENT ASSETS</u>			
<u>RESTRICTED ASSETS</u>			
Cash	\$ 0	\$ 37,627	\$ 37,627
Property Assessments Receivable	0	4,309	4,309
Total Restricted Assets	\$ 0	\$ 41,936	\$ 41,936
<u>CAPITAL ASSETS</u>			
Land	\$ 0	\$ 88,703	\$ 88,703
Buildings	22,616	67,921	90,537
Improvements Other Than Buildings	945,480	1,815,233	2,760,713
Machinery and Equipment	37,818	117,130	154,948
	\$ 1,005,914	\$ 2,088,987	\$ 3,094,901
Less Accumulated Depreciation	705,851	1,056,424	1,762,275
Net Capital Assets	\$ 300,063	\$ 1,032,563	\$ 1,332,626
TOTAL ASSETS	\$ 425,332	\$ 1,121,727	\$ 1,547,059
<u>LIABILITIES</u>			
<u>CURRENT LIABILITIES</u>			
Accounts Payable	\$ 1,140	\$ 1,513	\$ 2,653
Accrued Interest	0	175	175
Current Portion of Revenue Bonds	0	12,000	12,000
Total Current Liabilities	\$ 1,140	\$ 13,688	\$ 14,828
<u>LONG-TERM LIABILITIES</u>			
Revenue Bonds	0	30,000	30,000
TOTAL LIABILITIES	\$ 1,140	\$ 43,688	\$ 44,828
<u>NET ASSETS</u>			
Invested in Capital Assets, Net of Related Debt	\$ 300,063	\$ 990,563	\$ 1,290,626
Restricted for Debt Service	0	41,936	41,936
Unrestricted	124,129	45,540	169,669
TOTAL NET ASSETS	\$ 424,192	\$ 1,078,039	\$ 1,502,231

The accompanying notes are an integral part of the financial statements.

CITY OF MCBAIN, MICHIGAN
PROPRIETARY FUNDS
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
YEAR ENDED APRIL 30, 2007

	<u>BUSINESS TYPE ACTIVITIES - ENTERPRISE FUNDS</u>		
	<u>MAJOR FUNDS</u>		<u>TOTALS</u>
	<u>WATER FUND</u>	<u>SEWER FUND</u>	
<u>OPERATING REVENUES</u>			
Charges for Services	\$ 41,322	\$ 35,966	\$ 77,288
<u>OPERATING EXPENSES</u>			
Personal Services	\$ 2,000	\$ 8,000	\$ 10,000
Contractual Services	1,590	900	2,490
Supplies	144	117	261
Heat, Light and Power	9,859	3,781	13,640
Depreciation and Amortization	29,310	41,919	71,229
Repairs and Maintenance	28,401	20,079	48,480
Miscellaneous	450	3,765	4,215
Total Operating Expenses	\$ 71,754	\$ 78,561	\$ 150,315
Operating Income (Loss)	\$ (30,432)	\$ (42,595)	\$ (73,027)
<u>NONOPERATING REVENUES (EXPENSES)</u>			
Interest Revenue	\$ 1,989	\$ 1,533	\$ 3,522
Interest and Fiscal Charges	0	(2,604)	(2,604)
Current Property Taxes	0	11,091	11,091
Miscellaneous	0	1,743	1,743
Wellhead Protection Grant	800	0	800
Wellhead Protection Expenses	(1,600)	0	(1,600)
Total Nonoperating Revenues (Expenses)	\$ 1,189	\$ 11,763	\$ 12,952
Net Income (Loss)	\$ (29,243)	\$ (30,832)	\$ (60,075)
Capital Contribution from General Fund	0	5,000	5,000
Change in Net Assets	\$ (29,243)	\$ (25,832)	\$ (55,075)
<u>TOTAL NET ASSETS - Beginning of Year</u>	<u>453,435</u>	<u>1,103,871</u>	<u>1,557,306</u>
<u>TOTAL NET ASSETS - End of Year</u>	<u>\$ 424,192</u>	<u>\$ 1,078,039</u>	<u>\$ 1,502,231</u>

The accompanying notes are an integral part of the financial statements.

CITY OF MCBAIN, MICHIGAN
PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
YEAR ENDED APRIL 30, 2007

BUSINESS TYPE ACTIVITIES - ENTERPRISE FUNDS

MAJOR FUNDS

<u>WATER FUND</u>	<u>SEWER FUND</u>	<u>TOTALS</u>
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INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS

Cash Flows from Operating Activities:

Cash Received from Customers	\$ 39,907	\$ 37,006	\$ 76,913
Cash Payments to Suppliers for Goods and Services	(42,114)	(32,157)	(74,271)
Cash Payments to Employees for Services	(2,000)	(8,000)	(10,000)
Other Operating Revenue	2,455	0	2,455

Net Cash Provided (Used) by Operating Activities	\$ (1,752)	\$ (3,151)	\$ (4,903)
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Cash Flows from Capital and Related Financing Activities:

Acquisition and Construction of Capital Assets	\$ 0	\$ (12,697)	\$ (12,697)
Grant Proceeds	800	0	800
Wellhead Protection Expenses	(1,600)	0	(1,600)
Principal Paid on Bonds	0	(11,000)	(11,000)
Interest Paid on Bonds	0	(2,650)	(2,650)
Property Taxes	0	11,547	11,547
Miscellaneous Revenue	0	1,743	1,743
Capital Contribution	0	5,000	5,000

Net Cash Provided (Used) for Capital and Related Financing Activities	\$ (800)	\$ (8,057)	\$ (8,857)
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Cash Flows from Investing Activities:

Interest Received	\$ 1,989	\$ 1,533	\$ 3,522
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Net Increase (Decrease) in Cash and Cash Equivalents	\$ (563)	\$ (9,675)	\$ (10,238)
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<u>CASH AND CASH EQUIVALENTS</u> - Beginning of Year	125,612	94,310	219,922
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<u>CASH AND CASH EQUIVALENTS</u> - End of Year	\$ 125,049	\$ 84,635	\$ 209,684
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The accompanying notes are an integral part of the financial statements.

CITY OF MCBAIN, MICHIGAN
PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
YEAR ENDED APRIL 30, 2007

BUSINESS TYPE ACTIVITIES - ENTERPRISE FUNDS

MAJOR FUNDS

<u>WATER FUND</u>	<u>SEWER FUND</u>	<u>TOTALS</u>
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RECONCILIATION OF OPERATING INCOME

TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:

Operating Income (Loss)	\$ (30,432)	\$ (42,595)	\$ (73,027)
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities			
Depreciation and Amortization	\$ 29,310	\$ 41,919	\$ 71,229
(Increase) Decrease in Current Assets			
Accounts Receivable	1,040	1,040	2,080
Increase (Decrease) in Current Liabilities			
Accounts Payable	(1,670)	(488)	(2,158)
Accrued Interest Payable	0	(46)	(46)
Due to Other Governments	0	(2,981)	(2,981)
Total Adjustments	\$ 28,680	\$ 39,444	\$ 68,124
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	\$ (1,752)	\$ (3,151)	\$ (4,903)

The accompanying notes are an integral part of the financial statements.

CITY OF CADILLAC, MICHIGAN
FIDUCIARY FUNDS

STATEMENT OF FIDUCIARY NET ASSETS
APRIL 30, 2007

	<u>AGENCY FUND</u>
<u>ASSETS</u>	
Cash	\$ 6,256
	<hr/>
<u>LIABILITIES</u>	
Due to Other Funds	\$ 2,006
Due to Other Governments	4,250
	<hr/>
TOTAL LIABILITIES	\$ 6,256
	<hr/>
<u>NET ASSETS</u>	\$ 0
	<hr/>

The accompanying notes are an integral part of the financial statements.

CITY OF MCBAIN, MICHIGAN
COMPONENT UNITS

STATEMENT OF NET ASSETS
APRIL 30, 2007

	DOWNTOWN DEVELOPMENT AUTHORITY	TAX INCREMENT FINANCE AUTHORITY	TOTALS
<u>ASSETS</u>			
Cash	\$ 62,678	\$ 203,840	\$ 266,518
Investments	0	457,585	457,585
Receivables			
Taxes	110	5,528	5,638
Interest	0	493	493
Loans	73,625	509,541	583,166
Due from Other Governments	37	0	37
TOTAL CURRENT ASSETS	<u>\$ 136,450</u>	<u>\$ 1,176,987</u>	<u>\$ 1,313,437</u>
<u>NONCURRENT ASSETS</u>			
<u>CAPITAL ASSETS (Not Being Depreciated)</u>			
Land	\$ 40,602	\$ 50,448	\$ 91,050
Buildings	0	150,000	150,000
Equipment	0	25,000	25,000
	<u>\$ 40,602</u>	<u>\$ 225,448</u>	<u>\$ 266,050</u>
 TOTAL ASSETS	 <u>\$ 177,052</u>	 <u>\$ 1,402,435</u>	 <u>\$ 1,579,487</u>
<u>LIABILITIES</u>			
<u>CURRENT LIABILITIES</u>			
Current Portion of Long-Term Debt	\$ 11,954	\$ 0	\$ 11,954
Accounts Payable	0	890	890
TOTAL CURRENT LIABILITIES	<u>\$ 11,954</u>	<u>\$ 890</u>	<u>\$ 12,844</u>
<u>EQUITY</u>			
Net Assets:			
Invested in Capital Assets	\$ 40,602	\$ 225,448	\$ 266,050
Unrestricted	136,450	1,176,987	1,300,593
 TOTAL NET ASSETS	 <u>\$ 177,052</u>	 <u>\$ 1,402,435</u>	 <u>\$ 1,566,643</u>

The accompanying notes are an integral part of the financial statements.

CITY OF MCBAIN, MICHIGAN
COMPONENT UNITS

STATEMENT OF ACTIVITIES
YEAR ENDED APRIL 30, 2007

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES		NET (EXPENSES) REVENUES AND CHANGE IN NET ASSETS
		CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	
<u>Downtown Development Authority</u>				
Economic Development and Assistance	\$ 12,372	\$ 0	\$ 0	\$ (12,372)
Interest on Long-Term Debt	1,120	0	0	(1,120)
	<u>\$ 13,492</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ (13,492)</u>
<u>Tax Increment Finance Authority</u>				
Economic Development and Assistance	418,238	0	3,735	(414,503)
TOTAL COMPONENT UNITS	<u><u>\$ 431,730</u></u>	<u><u>\$ 0</u></u>	<u><u>\$ 3,735</u></u>	<u><u>\$ (427,995)</u></u>
<u>GENERAL REVENUES</u>				
Property Tax				\$ 262,063
Investment Earnings				52,940
Loss on Loan Foreclosure				(17,150)
Gain on Disposal of Capital Assets				4,392
Other				225
Total General Revenues				<u>\$ 302,470</u>
Change in Net Assets				\$ (125,525)
<u>NET ASSETS</u> - Beginning of Year				<u>1,692,168</u>
<u>NET ASSETS</u> - End of Year				<u><u>\$ 1,566,643</u></u>

The accompanying notes are an integral part of the financial statements.

CITY OF MCBAIN, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
APRIL 30, 2007

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The City of McBain, Michigan, was incorporated under the laws of the State of Michigan and operates under an elected Mayor-Council form of government. As required by generally accepted accounting principles, these financial statements present the government and its component units, entities for which the government is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the government's operations and data from these units are combined with data of the primary government. Discretely presented component units on the other hand, are reported in a separate column in the combined financial statements to emphasize they are legally separate from the primary government. Each blended and discretely presented component unit has an April 30 year end.

BLENDED COMPONENT UNITS

City of McBain Fire Department - The Fire Department of McBain, Michigan, an entity legally separate from the City, is governed by a board appointed by the City council. For financial reporting purposes, the Fire Department is reported as if it were part of the City's operations because its purpose is to provide fire protection to the citizens of the City and the townships of Riverside and Richland.

DISCRETELY PRESENTED COMPONENT UNITS

Downtown Development Authority (DDA) – The members of the governing board of the Downtown Development Authority are appointed by the McBain City council. The Authority's operational and capital budgets and bonded debt must be approved by the City council.

Tax Increment Finance Authority (TIFA) – The members of the governing board of the Tax Increment Finance Authority are appointed by the McBain City council. The Authority's operational and capital budgets and bonded debt must be approved by the City council.

Financial statements of the individual component units are included as supplemental information in the annual financial report of the City of McBain, Michigan. The component units do not issue separate financial reports.

B. Government-wide and Fund Financial Statements

During fiscal year 2005, the City adopted GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, as amended by GASB Statements No. 37 and No. 38, and applied those standards on a retroactive basis. GASB Statement No. 34 establishes standards for external financial reporting for state and local governments and requires that resources be classified for accounting and reporting purposes into the following three net asset categories.

Invested in Capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

CITY OF MCBAIN, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
APRIL 30, 2007

Restricted net assets result when constraints placed on net asset use are either externally imposed by creditors, grantors, and contributors, or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets which do not meet the definition of the two preceding categories.

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the non-fiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially responsible.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

The government-wide focus is more on the sustainability of the City as an entity and the change in aggregate financial position resulting from the activities of the fiscal period. The fund financial statements are similar to the financial statements presented in the previous financial reporting model.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting and Basis of Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual

CITY OF MCBAIN, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

APRIL 30, 2007

accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, licenses, interest and special assessments associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Sales taxes collected and held by the state at year end on behalf of the government are also recognized as revenue. All other revenue items are considered to be measurable and available only when cash is received by the government.

Entitlements and shared revenues are recorded at the time of receipt or earlier if the susceptible to accrual criteria are met. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met.

The accounts of the City are organized on the basis of funds. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds are maintained consistent with legal and managerial requirements.

The City of McBain reports the following major governmental funds:

The *General Fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *Major Street Fund* is used to account for the financial activity of the streets designated by the State of Michigan as major thoroughfares.

The *Local Street Fund* receives all local street money paid to the city by the State, accounts for all construction, maintenance, traffic services, and snow and ice control on all streets classified as local.

The *Fire Fund* is a blended component unit used to account for the financial activity of the City of McBain fire department.

The City of McBain reports the following major proprietary funds:

The *Water Fund and Sewer Fund* record financial activity of the water system which provides water to customers and the operations of the City's wastewater collection and treatment System.

Additionally the City of McBain reports the following fund types:

The *special revenue funds* account for revenue sources that are legally restricted to expenditure for specific purposes (not including expendable trusts or major capital projects).

The *capital projects funds* account for the acquisition of capital assets or construction of major capital projects not being financed by proprietary or nonexpendable trust funds.

CITY OF MCBAIN, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

APRIL 30, 2007

The *proprietary funds* are used to account for those operations that are financed and operated in a manner similar to private business or where the Council has decided that the determination of revenues earned, costs incurred and/or net income is necessary for management accountability.

Fiduciary funds are accounted for using the accrual method of accounting. Fiduciary funds account for assets held by the City in a trustee capacity or as an agent on behalf of others. Fiduciary funds are not included in the government-wide statements.

Agency funds are custodial in nature and do not present results of operations or have a measurement focus. Agency funds are accounted for using the modified accrual basis of accounting. These funds are used to account for assets that the City holds for others in an agency capacity.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the government's water and sewer functions and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions involved. Amounts reported as program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Water and Sewer Funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the City's policy to use the restricted resources first, then unrestricted resources as they are needed.

D. Assets, Liabilities and Equity

1. Deposits and Investments

The government's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

CITY OF MCBAIN, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

APRIL 30, 2007

Investments - The City's investment policy is in compliance with state law and authorizes the City to invest in passbook savings accounts, certificates of deposit, and money market funds. The City does not have any investments other than interest bearing bank accounts.

2. Receivables and Payables

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

Advances between funds are offset by a fund balance reserve account in applicable governmental funds to indicate they are not available for appropriation and are not expendable available financial resources.

All trade and property tax receivables are shown net of an allowance for uncollectibles. Property taxes attach as an enforceable lien on the property as of the date they are levied. City and State Education taxes are levied and due July 1, and become delinquent after August 14. County and local school taxes are levied and due December 1, and become delinquent after February 14. Collections of school and county taxes and remittances of them are accounted for in the Current Tax Collection Fund. City property tax revenues are recognized when they become both measurable and available for use to finance City operations. Amounts which are not expected to be collected within sixty days are treated as deferred revenues.

The 2006 taxable valuation of the City of McBain totaled \$20,107,618, on which ad valorem taxes levied consisted of 12.4517 mills for the City of McBain operating purposes and 1.5000 mills (on real property only with a taxable valuation of \$16,747,892) for sewer debt retirement. These levies raised approximately \$250,370 for operating purposes and \$25,122 for sewer debt retirement. Portions of these taxes levied were captured by the Downtown Development Authority, and the Tax Increment Finance Authority. These amounts are recognized in the respective General Fund or Component Unit Fund financial statements as taxes receivable or as tax revenue.

3. Restricted Assets

Certain resources of the Sewer Fund which are set aside for repayment of revenue bonds are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants. The "bond reserve" account is used to report resources set aside to make current debt service payments and to make up potential future deficiencies in the funds available for debt service.

4. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 (amount not rounded) and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if

CITY OF MCBAIN, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

APRIL 30, 2007

purchased or constructed. Donated capital assets are recorded at estimated fair market value at date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of proprietary fund capital assets is reflected in the capitalized value of the asset constructed, net of interest earned on the invested proceeds over the same period.

Property, plant and equipment of the primary government, as well as the component units are depreciated using the straight line method over the following estimated useful lives:

<u>ASSETS</u>	<u>YEARS</u>
Buildings	40-50
Building improvements	20
Public domain infrastructure	50
System infrastructure	30
Vehicles	10
Equipment	5-10

5. Long-term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

6. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

7. Use of Estimates

The presentation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

CITY OF MCBAIN, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

APRIL 30, 2007

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information

1. Prior to April 30, the City Clerk submits to the City Council a proposed operating budget for all governmental funds for the fiscal year commencing the following May 1. The operating budget includes proposed expenditures and the means of financing them.
2. Public hearings are conducted to obtain taxpayer comments.
3. Prior to April 30, the budget is legally enacted through passage of a budget ordinance. Budgets are submitted on a line-item basis but adopted by the Council on a major function basis.
4. All transfers of budget amounts between functions within the General Fund and any revisions that alter the total expenditures of any fund must be approved by the City Council. General Fund expenditures may not legally exceed budgeted appropriations at the major function level. Expenditures in all other governmental funds may not exceed appropriations at the total fund level.
5. Formal budgetary integration is employed as a management control device during the year for all governmental fund types.
6. Budgets for the General, Special Revenue, and Capital Project Funds are adopted on a basis consistent with generally accepted accounting principles (GAAP). All appropriations lapse at year end. No budget amendments were adopted during the year.
7. Encumbrance accounting is not used by the City.

III. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS

A. Deposits and Investments

Cash balances of most City funds are pooled and invested. Interest earned on the investments purchased with pooled cash is allocated back to each of the funds based on the fund's average equity balance. In addition, investments are separately held by several of the City's funds. The City's deposits and investments are all on deposit with Chemical Bank West. Other than interest bearing bank accounts, the City has no investments.

Investment rate risk. The City minimizes Interest Rate Risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and investing operating funds primarily in interest bearing demand accounts.

Foreign currency risk. The City is not authorized to invest in investments, which have this type of risk.

Credit risk. The City minimizes Custodial Credit Risk, which is the risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities listed in the City's

CITY OF MCBAIN, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

APRIL 30, 2007

investment policy; and pre-qualifying the financial institutions, brokers/dealer, intermediaries and advisors with which the City will do business in accordance with the City's investment policy.

Concentration of credit risk. The City minimizes Concentration of Credit Risk, which is the risk of loss attributed to the magnitude of the City's deposits in a single bank, by investing in a high quality local bank.

Custodial credit risk – deposits. In the case of deposits, this is the risk that in the event of a bank failure, the government's deposits may not be returned to it. As of April 30, 2007, \$402,972 of the City's bank balances of \$547,365 was exposed to custodial credit risk because it was uninsured and uncollateralized. As of April 30, 2007, \$103,840 of the component units' bank balances of \$266,519 was exposed to custodial credit risk because it was uninsured and uncollateralized.

B. Receivables

Receivables as of year end for the government's individual major funds and component units are as follows:

	General	Major Street	Local Street	Water	Sewer	Total Government	Component Units
Receivables							
Taxes and Assessments	\$ 238	\$ 0	\$ 0	\$ 0	\$ 4,309	\$ 4,547	\$ 5,638
Accounts	320	0	0	220	220	760	0
Interest	0	0	0	0	0	0	493
Mortgages and Notes	0	0	0	0	0	0	583,166
Due from Other Governments	7,356	7,250	2,441	0	0	17,047	0
Receivables	\$ 7,914	\$ 7,250	\$ 2,441	\$ 220	\$ 4,529	\$ 22,354	\$ 589,297

By ordinance, the City can place substantially all of its delinquent receivables on the tax rolls as a lien against real property. As a result, its uncollectible accounts are virtually nil.

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of deferred revenue and unearned revenue reported in the governmental funds were as follows:

	Unavailable
Delinquent property taxes receivable (General Fund)	\$ 238

CITY OF MCBAIN, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

APRIL 30, 2007

C. Capital Assets

	Beginning Balance	Increases	Decreases	Ending Balance
<u>Governmental activities:</u>				
Capital assets, not being depreciated				
Land	\$ 288,582	\$ 0	\$ 0	\$ 288,582
Capital assets, being depreciated				
Buildings	\$ 238,988	\$ 56,337	\$ 0	\$ 295,325
Land Improvements	408,451	28,889	0	437,340
Machinery and Equipment	971,554	40,331	0	1,011,885
Infrastructure	949,925	0	0	949,925
Total capital assets, being depreciated	\$ 2,568,918	\$ 125,557	\$ 0	\$ 2,694,475
Less accumulated depreciation for:				
Buildings	\$ 75,656	\$ 7,148	\$ 0	\$ 82,804
Land Improvements	169,280	18,716	0	187,996
Machinery and Equipment	411,946	53,277	0	465,223
Infrastructure	265,542	40,569	0	306,111
Total accumulated depreciation	\$ 922,424	\$ 119,710	\$ 0	\$ 1,042,134
Total capital assets, being depreciated, net	\$ 1,646,494	\$ 5,847	\$ 0	\$ 1,652,341
Governmental activities capital assets, net	\$ 1,935,076	\$ 5,847	\$ 0	\$ 1,940,923

CITY OF MCBAIN, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

APRIL 30, 2007

	Beginning Balance	Increases	Decreases	Ending Balance
<u>Business-type activities</u>				
Capital assets, not being depreciated				
Land	\$ 88,703	\$ 0	\$ 0	\$ 88,703
Capital assets, being depreciated				
Buildings	\$ 90,537	\$ 0	\$ 0	\$ 90,537
Improvements Other Than Buildings	2,748,016	12,697	0	2,760,713
Machinery and Equipment	154,948	0	0	154,948
Total capital assets, being depreciated	\$ 2,993,501	\$ 12,697	\$ 0	\$ 3,006,198
Less accumulated depreciation for:				
Buildings	\$ 61,809	\$ 2,530	\$ 0	\$ 64,339
Land Improvements	1,487,338	66,199	0	1,553,537
Machinery and Equipment	141,899	2,500	0	144,399
Total accumulated depreciation	\$ 1,691,046	\$ 71,229	\$ 0	\$ 1,762,275
Total capital assets, being depreciated, net	\$ 1,302,455	\$ (58,532)	\$ 0	\$ 1,243,923
Business-type activities capital assets, net	\$ 1,391,158	\$ (58,532)	\$ 0	\$ 1,332,626
<u>Component Units</u>				
Capital assets, not being depreciated				
Land	\$ 0	\$ 91,050	\$ 0	\$ 91,050
Buildings	0	150,000	0	150,000
Machinery and Equipment	0	25,000	0	25,000
Component Units capital assets	\$ 0	\$ 266,050	\$ 0	\$ 266,050

CITY OF MCBAIN, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
APRIL 30, 2007

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:	
Public Safety	\$ 38,560
Public Works	67,097
Culture and Recreation	<u>14,053</u>
Total governmental activities	<u>\$ 119,710</u>
Business-type activities:	
Water Fund	\$ 29,310
Sewer Fund	<u>41,919</u>
Total business-type activities	<u>\$ 71,229</u>

D. Interfund Receivables, Payables and Transfers

Individual fund interfund receivable and payable balances at April 30, 2007, were:

<u>FUND</u>	<u>INTERFUND RECEIVABLES</u>	<u>INTERFUND PAYABLES</u>
General Fund	\$ 8,204	\$ 0
Major Street Fund	11,375	0
Local Street Fund	0	17,573
Tax Collection Fund	0	2,006
Downtown Development Authority	2,120	0
Tax Increment Finance Authority	<u>0</u>	<u>2,120</u>
	<u>\$ 21,699</u>	<u>\$ 21,699</u>

All remaining balances generally resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made. All interfund balances outstanding at April 30, 2007, are expected to be repaid within one year.

CITY OF MCBAIN, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

APRIL 30, 2007

Interfund Transfers as of April 30, 2007, were:

	TRANSFERS	
	IN	OUT
<u>Primary Government</u>		
General Fund	\$ 0	\$ 39,975
Local Street Fund	3,975	0
Cemetery Fund	20,000	0
Fire Fund	11,000	0
Land Development Fund	0	10,000
Capital Outlay Equipment Fund	10,000	0
Sewer Fund Capital Contribution	5,000	0
	<u>\$ 49,975</u>	<u>\$ 49,975</u>

Transfers are used to: (1) move revenues from the fund that is required to collect them to the fund that is required or allowed to expend them; (2) move receipts restricted to or allowed for debt service from the funds collecting the receipts to the debt service fund as debt service payments become due; and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

E. Long-Term Debt

1. Primary Government

The following is a summary of debt transactions of the City of McBain for the year ended April 30, 2007:

Governmental Activities: None

Business-type activities:

	Revenue Bonds
Debt Payable at May 1, 2006	\$ 53,000
New Debt Incurred	0
Debt Retired	<u>(11,000)</u>
Debt Payable at April 30, 2007	<u>\$ 42,000</u>

\$340,000 Missaukee County Sanitary Sewer Collection, Treatment and Disposal System (McBain System No. 1) bonds due in annual installments of \$5,000 to \$13,000 through April 1, 2011; interest at 5.0% due April 1 and October 1, of each year.

\$ 42,000

CITY OF MCBAIN, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
APRIL 30, 2007

The annual requirements to amortize the debt outstanding as of April 30, 2007, are as follows:

<u>Year Ending April 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	12,000	2,100	14,100
2009	12,000	1,500	13,500
2010	13,000	900	13,900
2011	5,000	250	5,250
	<u>\$ 42,000</u>	<u>\$ 4,750</u>	<u>\$ 46,750</u>

2. Component Units

The following is a summary of debt transactions of the City of McBain's discretely presented component units for the year ended April 30, 2007:

	<u>Installment Purchase Agreement</u>
Debt Payable at May 1, 2006	\$ 23,310
New Debt Incurred	0
Debt Retired	(11,356)
Debt Payable at April 30, 2007	<u>\$ 11,954</u>

Debt payable at April 30, 2007, is comprised of the following issues:

Installment Purchase Agreement payable in one installment of \$12,475
including interest at 4.85% due April 1, 2008. \$ 11,965

The annual requirements to amortize this debt as of April 30, 2007, are as follows:

<u>Year Ending April 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	<u>\$ 11,965</u>	<u>\$ 510</u>	<u>\$ 12,475</u>

CITY OF MCBAIN, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
APRIL 30, 2007

F. Fund Balance Reserves and Designations

In order to comply with generally accepted accounting principles and meet certain legal requirements, the City has reserved fund balances/retained earnings in various funds. In addition, certain portions of unreserved fund balances/retained earnings have been designated for intended future uses. These reserves and designations are detailed in the following schedule:

NET ASSETS

Restricted

Sewer Fund

Debt Service

\$ 41,936

DESIGNATED FUND BALANCE

Capital Projects Funds

Capital Outlay Equipment Fund

City Hall Equipment

\$ 19,567

IV. OTHER INFORMATION

A. Mortgages and Notes Receivable

Mortgages and Notes Receivable as reported in the component units consist of the following:

Mortgages and notes made to private businesses to encourage development within the boundaries of the Downtown Development Authority and Tax Increment Finance Authority.

B. Due from Other Governments

Amounts due from other governments consist of \$17,047 in state-shared revenues.

C. Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees, and natural disasters for which City carries commercial insurance.

CITY OF MCBAIN, MICHIGAN
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
MAJOR GOVERNMENTAL FUNDS

YEAR ENDED APRIL 30, 2007

	GENERAL FUND			MAJOR STREET FUND			LOCAL STREET FUND			FIRE FUND		
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL
<u>REVENUES</u>												
Taxes	\$ 104,000	\$ 104,000	\$ 109,745	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
State Grants	50,000	50,000	53,296	42,000	42,000	50,807	15,000	15,000	18,183	0	0	0
Contributions from Local Units	0	0	125,556	0	0	0	0	0	0	32,400	32,400	21,400
Charges for Services	95,700	95,700	178,338	0	0	0	0	0	0	0	0	0
Interest and Rents	6,351	6,351	13,957	50	50	491	25	25	422	200	200	28
Other Revenue	80,200	80,200	2,372	0	0	0	0	0	0	2,017	2,017	2,798
Total Revenues	\$ 336,251	\$ 336,251	\$ 483,264	\$ 42,050	\$ 42,050	\$ 51,298	\$ 15,025	\$ 15,025	\$ 18,605	\$ 34,617	\$ 34,617	\$ 24,226
<u>EXPENDITURES</u>												
Legislative	\$ 4,100	\$ 4,100	\$ 3,950	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
General Government	192,900	192,900	162,821	0	0	0	0	0	0	0	0	0
Public Safety	27,500	27,500	96,667	0	0	0	0	0	0	30,725	30,725	32,941
Public Works	71,200	71,200	80,271	46,400	46,400	41,427	35,100	35,100	30,918	0	0	0
Planning	13,040	13,040	8,852	0	0	0	0	0	0	0	0	0
Culture and Recreation	5,600	5,600	3,842	0	0	0	0	0	0	0	0	0
Capital Outlay	0	0	0	0	0	0	0	0	0	3,500	3,500	0
Other Functions	149,300	149,300	74,158	0	0	0	0	0	0	0	0	0
Total Expenditures	\$ 463,640	\$ 463,640	\$ 430,561	\$ 46,400	\$ 46,400	\$ 41,427	\$ 35,100	\$ 35,100	\$ 30,918	\$ 34,225	\$ 34,225	\$ 32,941
Excess (Deficiency) of Revenues Over Expenditures	\$ (127,389)	\$ (127,389)	\$ 52,703	\$ (4,350)	\$ (4,350)	\$ 9,871	\$ (20,075)	\$ (20,075)	\$ (12,313)	\$ 392	\$ 392	\$ (8,715)
<u>OTHER FINANCING SOURCES (USES)</u>												
Transfers In	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 3,975	\$ 0	\$ 0	\$ 11,000
Transfers Out	0	0	(39,975)	0	0	0	0	0	0	0	0	0
Total Other Financing Sources (Uses)	\$ 0	\$ 0	\$ (39,975)	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 3,975	\$ 0	\$ 0	\$ 11,000
Net Change in Fund Balance	\$ (127,389)	\$ (127,389)	\$ 12,728	\$ (4,350)	\$ (4,350)	\$ 9,871	\$ (20,075)	\$ (20,075)	\$ (8,338)	\$ 392	\$ 392	\$ 2,285
<u>FUND BALANCE</u> - Beginning of Year	154,987	154,987	217,442	13,168	13,168	13,168	11,052	11,052	11,052	(233)	(233)	(233)
<u>FUND BALANCE</u> (DEFICIT) - End of Year	\$ 27,598	\$ 27,598	\$ 230,170	\$ 8,818	\$ 8,818	\$ 23,039	\$ (9,023)	\$ (9,023)	\$ 2,714	\$ 159	\$ 159	\$ 2,052

CITY OF MCBAIN, MICHIGAN

GENERAL FUND

COMPARATIVE BALANCE SHEET

APRIL 30,

	<u>2007</u>	<u>2006</u>
<u>ASSETS</u>		
Cash	\$ 224,744	\$ 258,362
Receivables		
Taxes	238	112
Accounts	320	1,080
Due from Other Funds		
Local Street Fund	6,198	6,198
Current Tax Collection Fund	2,006	929
Due from Other Governments	7,356	7,528
	<hr/>	<hr/>
TOTAL ASSETS	\$ 240,862	\$ 274,209
	<hr/>	<hr/>
<u>LIABILITIES AND FUND BALANCE</u>		
<u>LIABILITIES</u>		
Accounts Payable	\$ 6,585	\$ 3,542
Salaries Payable	3,832	0
Deferred Revenue	238	112
Due to Major Street Fund	0	4,434
Due to Local Street Fund	0	1,493
Due to Other Governments	37	47,186
	<hr/>	<hr/>
TOTAL LIABILITIES	\$ 10,692	\$ 56,767
<u>FUND BALANCE</u>		
Unreserved	230,170	217,442
	<hr/>	<hr/>
TOTAL LIABILITIES AND FUND BALANCE	\$ 240,862	\$ 274,209
	<hr/>	<hr/>

CITY OF MCBAIN, MICHIGAN

GENERAL FUND

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

BUDGET AND ACTUAL

YEAR ENDED APRIL 30, 2007

WITH COMPARATIVE ACTUAL AMOUNTS FOR YEAR ENDED APRIL 30, 2006

	<u>2007</u>		<u>2006</u>
	<u>BUDGET</u>	<u>ACTUAL</u>	<u>ACTUAL</u>
<u>REVENUES</u>			
Taxes	\$ 104,000	\$ 109,745	\$ 105,920
State Grants	50,000	53,296	54,515
Contributions from Local Units	0	125,556	79,000
Charges for Services	95,700	178,338	146,438
Interest and Rents	6,351	13,957	10,277
Other Revenue	80,200	2,372	701
Total Revenues	\$ 336,251	\$ 483,264	\$ 396,851
<u>EXPENDITURES</u>			
Legislative	\$ 4,100	\$ 3,950	\$ 3,525
General Government			
Executive	7,200	7,241	6,896
Elections	3,000	2,528	855
Independent Auditing	3,000	4,750	6,650
Attorney	3,000	3,857	1,654
Clerk	13,300	13,210	11,855
Board of Review	500	504	486
Treasurer	12,400	11,567	11,089
City Hall and Grounds	150,500	119,164	98,685
Public Safety	27,500	96,667	70,000
Public Works	71,200	80,271	58,786
Planning	13,040	8,852	9,137
Culture and Recreation	5,600	3,842	3,431
Other Functions	149,300	74,158	71,224
Total Expenditures	\$ 463,640	\$ 430,561	\$ 354,273
Excess (Deficiency) of Revenues Over Expenditures	\$ (127,389)	\$ 52,703	\$ 42,578

CITY OF MCBAIN, MICHIGAN

GENERAL FUND

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

BUDGET AND ACTUAL

YEAR ENDED APRIL 30, 2007

WITH COMPARATIVE ACTUAL AMOUNTS FOR YEAR ENDED APRIL 30, 2006

	<u>2007</u>		<u>2006</u>
	<u>BUDGET</u>	<u>ACTUAL</u>	<u>ACTUAL</u>
<u>OTHER FINANCING SOURCES (USES)</u>			
Transfers Out	0	(39,975)	(35,000)
Net Change in Fund Balance	\$ (127,389)	\$ 12,728	\$ 7,578
<u>FUND BALANCE</u> - Beginning of Year	154,987	217,442	209,864
<u>FUND BALANCE</u> - End of Year	\$ 27,598	\$ 230,170	\$ 217,442

CITY OF MCBAIN, MICHIGAN

GENERAL FUND

ANALYSIS OF REVENUES - BUDGET AND ACTUAL

YEAR ENDED APRIL 30, 2007

WITH COMPARATIVE ACTUAL AMOUNTS FOR YEAR ENDED APRIL 30, 2006

	2007		2006
	BUDGET	ACTUAL	ACTUAL
<u>TAXES</u>			
Current Property Tax	\$ 95,000	\$ 99,455	\$ 95,818
Delinquent Property Tax	0	0	43
Trailer Fees	0	0	62
Property Tax Administration Fee	9,000	10,290	9,997
Total Taxes	\$ 104,000	\$ 109,745	\$ 105,920
<u>STATE GRANTS</u>			
Sales Tax	\$ 50,000	\$ 50,538	\$ 51,520
Public Act 48	0	2,758	2,995
Total State Grants	\$ 50,000	\$ 53,296	\$ 54,515
<u>CONTRIBUTIONS FROM LOCAL UNITS</u>			
Tax Increment Finance Authority	\$ 0	\$ 125,556	\$ 79,000
<u>CHARGES FOR SERVICES</u>			
Refuse Collection	\$ 31,700	\$ 32,881	\$ 29,942
Summer Tax Collection Fee	0	1,098	1,198
Industrial Park Maintenance	30,000	54,823	48,921
Equipment Rental	17,000	49,761	37,412
Labor	17,000	39,775	28,965
Total Charges for Services	\$ 95,700	\$ 178,338	\$ 146,438
<u>INTEREST AND RENTS</u>			
Interest	\$ 1,000	\$ 5,949	\$ 4,727
Rents	5,351	8,008	5,550
Total Interest and Rents	\$ 6,351	\$ 13,957	\$ 10,277
<u>OTHER REVENUE</u>			
Refunds and Miscellaneous	\$ 6,300	\$ 2,122	\$ 701
DDA/TIFA	0	250	0
Revolving	73,900	0	0
Total Other Revenue	\$ 80,200	\$ 2,372	\$ 701
TOTAL REVENUES	\$ 336,251	\$ 483,264	\$ 396,851

CITY OF MCBAIN, MICHIGAN

GENERAL FUND

ANALYSIS OF EXPENDITURES - BUDGET AND ACTUAL

YEAR ENDED APRIL 30, 2007

WITH COMPARATIVE ACTUAL AMOUNTS FOR YEAR ENDED APRIL 30, 2006

	2007		2006
	BUDGET	ACTUAL	ACTUAL
<u>LEGISLATIVE</u>			
Mayor and City Council			
Salaries	\$ 4,000	\$ 3,950	\$ 3,525
Dues	100	0	0
	<u>\$ 4,100</u>	<u>\$ 3,950</u>	<u>\$ 3,525</u>
<u>GENERAL GOVERNMENT</u>			
Supervisor			
Salaries	<u>\$ 7,200</u>	<u>\$ 7,241</u>	<u>\$ 6,896</u>
Elections			
Wages	<u>\$ 3,000</u>	<u>\$ 2,528</u>	<u>\$ 855</u>
Independent Auditing			
Independent Audit	<u>\$ 3,000</u>	<u>\$ 4,750</u>	<u>\$ 6,650</u>
Attorney			
Legal Fees	<u>\$ 3,000</u>	<u>\$ 3,857</u>	<u>\$ 1,654</u>
City Clerk's Office			
Salaries and Wages	\$ 10,500	\$ 11,371	\$ 10,296
Office Supplies	1,000	979	878
Ordinance	1,000	0	0
Printing and Publication	800	860	681
	<u>\$ 13,300</u>	<u>\$ 13,210</u>	<u>\$ 11,855</u>
Board of Review			
Salaries and Wages	<u>\$ 500</u>	<u>\$ 504</u>	<u>\$ 486</u>
Treasurer's Office			
Salaries and Wages	\$ 8,400	\$ 7,852	\$ 7,624
Office Supplies	4,000	3,715	3,465
	<u>\$ 12,400</u>	<u>\$ 11,567</u>	<u>\$ 11,089</u>

CITY OF MCBAIN, MICHIGAN

GENERAL FUND

ANALYSIS OF EXPENDITURES - BUDGET AND ACTUAL

YEAR ENDED APRIL 30, 2007

WITH COMPARATIVE ACTUAL AMOUNTS FOR YEAR ENDED APRIL 30, 2006

	<u>2007</u>		<u>2006</u>
	<u>BUDGET</u>	<u>ACTUAL</u>	<u>ACTUAL</u>
City Hall and Grounds			
Salaries and Wages	\$ 80,000	\$ 78,502	\$ 69,230
Repairs and Maintenance	30,000	27,862	20,379
Utilities	9,000	8,715	7,475
Telephone	1,500	1,219	1,045
Cemetery/Street Construction	10,000	0	0
Generator - Sewer	10,000	0	0
Property Taxes	0	0	556
Capital Outlay	10,000	2,866	0
	<u>\$ 150,500</u>	<u>\$ 119,164</u>	<u>\$ 98,685</u>
 Total General Government	 <u>\$ 192,900</u>	 <u>\$ 162,821</u>	 <u>\$ 138,170</u>
 <u>PUBLIC SAFETY</u>			
Improvements	\$ 10,000	\$ 56,336	\$ 0
Fire Protection	12,500	0	0
Drainage	5,000	0	0
Generator	0	21,855	0
Security Cameras	0	18,476	70,000
	<u>\$ 27,500</u>	<u>\$ 96,667</u>	<u>\$ 70,000</u>
 <u>PUBLIC WORKS</u>			
Department of Public Works			
Refuse Disposal	\$ 31,700	\$ 33,340	\$ 24,427
Street Lighting	18,000	18,042	15,814
Recycling	1,500	0	0
Sewer	5,000	0	0
Water	5,000	0	0
Capital Outlay			
Sidewalks	0	0	9,545
Street Construction	10,000	0	0
Land Improvements	0	28,889	0
Equipment	0	0	9,000

CITY OF MCBAIN, MICHIGAN

GENERAL FUND

ANALYSIS OF EXPENDITURES - BUDGET AND ACTUAL

YEAR ENDED APRIL 30, 2007

WITH COMPARATIVE ACTUAL AMOUNTS FOR YEAR ENDED APRIL 30, 2006

	<u>2007</u>		<u>2006</u>
	<u>BUDGET</u>	<u>ACTUAL</u>	<u>ACTUAL</u>
	<u>\$ 71,200</u>	<u>\$ 80,271</u>	<u>\$ 58,786</u>
<u>PLANNING</u>			
Planning and Zoning Commission			
Contracted Services	\$ 9,040	\$ 8,100	\$ 8,040
Engineering	3,500	300	458
Miscellaneous	500	452	639
	<u>\$ 13,040</u>	<u>\$ 8,852</u>	<u>\$ 9,137</u>
<u>CULTURE AND RECREATION</u>			
Christmas Decorations	\$ 1,000	\$ 1,306	\$ 901
Parks	1,500	0	0
Miscellaneous	500	0	0
Trees and Flowers	2,600	2,536	2,530
	<u>\$ 5,600</u>	<u>\$ 3,842</u>	<u>\$ 3,431</u>
<u>OTHER FUNCTIONS</u>			
Miscellaneous	\$ 2,000	\$ 3,610	\$ 1,732
Revolving	73,900	0	0
Employee Benefits			
Social Security	9,500	9,765	9,005
Retirement	9,200	8,846	9,517
Health and Life Insurance	28,000	29,735	26,124
Unemployment	500	661	678
Uniforms	1,200	1,167	1,100
Insurance and Bonds	25,000	20,374	23,068
	<u>\$ 149,300</u>	<u>\$ 74,158</u>	<u>\$ 71,224</u>
TOTAL EXPENDITURES	<u>\$ 463,640</u>	<u>\$ 430,561</u>	<u>\$ 354,273</u>

CITY OF MCBAIN, MICHIGAN

MAJOR STREET FUND
COMPARATIVE BALANCE SHEET

APRIL 30,

	2007	2006
	<hr/>	
<u>ASSETS</u>		
Cash	\$ 5,452	\$ 1,888
Due from Other Funds	11,375	4,584
Due from Other Governments	7,250	7,473
	<hr/>	
TOTAL ASSETS	\$ 24,077	\$ 13,945
	<hr/>	
	<u>LIABILITIES AND FUND BALANCE</u>	
<u>LIABILITIES</u>		
Accounts Payable	\$ 1,038	\$ 777
<u>FUND BALANCE</u>		
Unreserved	23,039	13,168
	<hr/>	
TOTAL LIABILITIES AND FUND BALANCE	\$ 24,077	\$ 13,945
	<hr/>	

CITY OF MCBAIN, MICHIGAN

MAJOR STREET FUND

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL

YEAR ENDED APRIL 30, 2007

WITH COMPARATIVE ACTUAL AMOUNTS FOR YEAR ENDED APRIL 30, 2006

	<u>2007</u>		<u>2006</u>
	<u>BUDGET</u>	<u>ACTUAL</u>	<u>ACTUAL</u>
<u>REVENUES</u>			
State Grants			
Act 51	\$ 42,000	\$ 50,807	\$ 44,943
Interest and Rents			
Interest	50	491	57
Other Revenue			
Miscellaneous	0	0	548
Total Revenues	\$ 42,050	\$ 51,298	\$ 45,548
<u>EXPENDITURES</u>			
Public Works			
Administration			
Salaries and Payroll Taxes	\$ 400	\$ 400	\$ 400
Audit Fees	700	750	700
Street Construction	5,000	0	0
Repair and Maintenance	10,000	16,205	34,643
Snow Removal and Ice Control	25,000	20,797	23,934
Traffic Services	500	113	389
Roadside Parks	2,500	867	1,810
Capital Outlay	2,300	2,245	2,245
Miscellaneous	0	50	7
Total Expenditures	\$ 46,400	\$ 41,427	\$ 64,128
Excess (Deficiency) of			
Revenues Over Expenditures	\$ (4,350)	\$ 9,871	\$ (18,580)
<u>FUND BALANCE</u> - Beginning of Year	13,168	13,168	31,748
<u>FUND BALANCE</u> - End of Year	\$ 8,818	\$ 23,039	\$ 13,168

CITY OF MCBAIN, MICHIGAN

LOCAL STREET FUND
COMPARATIVE BALANCE SHEET

APRIL 30,

	2007	2006
<u>ASSETS</u>		
Cash	\$ 18,884	\$ 13,937
Due from Other Governments	2,441	2,747
Due from Other Funds	0	1,493
TOTAL ASSETS	\$ 21,325	\$ 18,177
<u>LIABILITIES AND FUND BALANCE</u>		
<u>LIABILITIES</u>		
Due to Other Funds	\$ 17,573	\$ 6,348
Accounts Payable	1,038	777
TOTAL LIABILITIES	\$ 18,611	\$ 7,125
<u>FUND BALANCE</u>		
Unreserved	2,714	11,052
TOTAL LIABILITIES AND FUND BALANCE	\$ 21,325	\$ 18,177

CITY OF MCBAIN, MICHIGAN

LOCAL STREET FUND

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

BUDGET AND ACTUAL

YEAR ENDED APRIL 30, 2007

WITH COMPARATIVE ACTUAL AMOUNTS FOR YEAR ENDED APRIL 30, 2006

	<u>2007</u>		<u>2006</u>
	<u>BUDGET</u>	<u>ACTUAL</u>	<u>ACTUAL</u>
<u>REVENUES</u>			
State Grants			
Act 51	\$ 15,000	\$ 18,183	\$ 18,937
Interest and Rents			
Interest	25	422	64
Total Revenues	<u>\$ 15,025</u>	<u>\$ 18,605</u>	<u>\$ 19,001</u>
<u>EXPENDITURES</u>			
Public Works			
Administration			
Salaries and Payroll Taxes	\$ 400	\$ 400	\$ 400
Audit Fees	700	750	700
Street Construction	10,000	7,950	0
Repair and Maintenance	8,000	7,637	12,338
Snow Removal and Ice Control	15,000	14,068	15,059
Traffic Services	1,000	83	247
Miscellaneous	0	30	11
Total Expenditures	<u>\$ 35,100</u>	<u>\$ 30,918</u>	<u>\$ 28,755</u>
Excess (Deficiency) of			
Revenues Over Expenditures	\$ (20,075)	\$ (12,313)	\$ (9,754)
<u>OTHER FINANCING SOURCES (USES)</u>			
Transfers In			
General Fund	0	3,975	0
Net Change in Fund Balance	<u>\$ (20,075)</u>	<u>\$ (8,338)</u>	<u>\$ (9,754)</u>
<u>FUND BALANCE</u> - Beginning of Year	11,052	11,052	20,806
<u>FUND BALANCE</u> (DEFICIT) - End of Year	<u>\$ (9,023)</u>	<u>\$ 2,714</u>	<u>\$ 11,052</u>

CITY OF MCBAIN, MICHIGAN

FIRE FUND

COMPARATIVE BALANCE SHEET

APRIL 30,

	<u>2007</u>	<u>2006</u>
<u>ASSETS</u>		
Cash	\$ 2,319	\$ 144
<u>LIABILITIES AND FUND BALANCE</u>		
<u>LIABILITIES</u>		
Accounts Payable	\$ 267	\$ 377
<u>FUND BALANCE</u>		
Unreserved (Deficit)	<u>2,052</u>	<u>(233)</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 2,319</u>	<u>\$ 144</u>

CITY OF MCBAIN, MICHIGAN

FIRE FUND

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL

YEAR ENDED APRIL 30, 2007

WITH COMPARATIVE ACTUAL AMOUNTS FOR YEAR ENDED APRIL 30, 2006

	<u>2007</u>		<u>2006</u>
	<u>BUDGET</u>	<u>ACTUAL</u>	<u>ACTUAL</u>
<u>REVENUES</u>			
Contributions from Local Units			
Yearly Assessment	\$ 32,400	\$ 21,400	\$ 20,600
New Truck Assessment	0	0	20,000
Tax Increment Finance Authority	0	0	57,666
Interest and Rents			
Interest	200	28	10
Other Revenues			
Donations-Private	0	1,200	0
Donations-Other Government Sources	0	495	0
Refunds and Miscellaneous	2,017	1,103	1,021
Total Revenues	\$ 34,617	\$ 24,226	\$ 99,297
<u>EXPENDITURES</u>			
Public Safety			
Fire Protection			
Chief's Salary	\$ 300	\$ 300	\$ 300
Treasurer's Salary	200	200	200
Quartermaster's Salary	100	50	100
Officers' Pay	200	200	150
Board Meetings	30	0	20
Worker's Compensation	1,150	1,159	1,144
Fire Runs and Meetings	3,900	3,080	3,285
Independent Audit	550	600	550
Communications	1,000	1,075	949
Gas and Oil	2,000	1,355	1,317
Foam	300	299	222
Lunches	375	489	327
Insurance	11,500	11,162	10,486
Supplies	300	2,974	377
Repairs and Maintenance	7,900	9,580	5,306

CITY OF MCBAIN, MICHIGAN

FIRE FUND

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL

YEAR ENDED APRIL 30, 2007

WITH COMPARATIVE ACTUAL AMOUNTS FOR YEAR ENDED APRIL 30, 2006

	2007		2006
	BUDGET	ACTUAL	ACTUAL
Education and Training	375	0	0
Health and Safety	500	331	0
Miscellaneous	45	87	68
Capital Outlay			
Equipment	3,500	0	0
Debt Service			
Pumper Loan Principal	0	0	76,856
Pumper Loan Interest	0	0	809
Total Expenditures	\$ 34,225	\$ 32,941	\$ 102,466
Excess (Deficiency) of Revenues Over Expenditures	\$ 392	\$ (8,715)	\$ (3,169)
<u>OTHER FINANCING SOURCES (USES)</u>			
Transfers In			
General Fund	0	11,000	10,000
Net Change in Fund Balance	\$ 392	\$ 2,285	\$ 6,831
<u>FUND BALANCE</u> (DEFICIT) - Beginning of Year	(233)	(233)	(7,064)
<u>FUND BALANCE</u> (DEFICIT) - End of Year	\$ 159	\$ 2,052	\$ (233)

CITY OF MCBAIN, MICHIGAN

WATER FUND

COMPARATIVE STATEMENT OF NET ASSETS

APRIL 30,

	<u>2007</u>	<u>2006</u>
<u>ASSETS</u>		
<u>CURRENT ASSETS</u>		
Cash	\$ 125,049	\$ 125,612
Receivables		
Accounts	220	1,260
Total Current Assets	\$ 125,269	\$ 126,872
<u>NONCURRENT ASSETS</u>		
<u>CAPITAL ASSETS</u>		
Buildings	\$ 22,616	\$ 22,616
Machinery and Equipment	37,818	37,818
Water Wells and Distribution System	945,480	945,480
Less Accumulated Depreciation	(705,851)	(676,541)
Net Fixed Assets	\$ 300,063	\$ 329,373
TOTAL ASSETS	\$ 425,332	\$ 456,245
<u>LIABILITIES AND NET ASSETS</u>		
<u>CURRENT LIABILITIES</u>		
Accounts Payable	\$ 1,140	\$ 2,810
<u>NET ASSETS</u>		
Invested in Capital Assets	\$ 329,373	\$ 329,373
Unrestricted	94,819	124,062
TOTAL NET ASSETS	\$ 424,192	\$ 453,435

CITY OF MCBAIN, MICHIGAN

WATER FUND

COMPARATIVE STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS

YEARS ENDED APRIL 30,

	2007	2006
<u>OPERATING REVENUES</u>		
Charges for Services	\$ 38,867	\$ 35,150
Turn On Fees	2,455	0
Total Operating Revenues	<u>\$ 41,322</u>	<u>\$ 35,150</u>
<u>OPERATING EXPENSES</u>		
Clerk's Salary	\$ 2,000	\$ 2,000
Office Supplies and Expense	144	210
Collection Fees	150	0
Audit Fees	800	750
Engineering	447	0
Public Utilities	9,859	9,228
Repairs and Maintenance	28,401	14,467
Printing and Publication	343	305
Depreciation	29,310	34,704
Miscellaneous	300	725
Total Operating Expenses	<u>\$ 71,754</u>	<u>\$ 62,389</u>
Operating Income (Loss)	<u>\$ (30,432)</u>	<u>\$ (27,239)</u>
<u>NONOPERATING REVENUES AND (EXPENSES)</u>		
Interest Revenue	\$ 1,989	\$ 1,832
Wellhead Protection Grant	800	0
Wellhead Protection Expenses	(1,600)	(1,600)
Total Nonoperating Revenues and (Expenses)	<u>\$ 1,189</u>	<u>\$ 232</u>
Net Income (Loss)	\$ (29,243)	\$ (27,007)
<u>TOTAL NET ASSETS</u> - Beginning of Year	<u>453,435</u>	<u>480,442</u>
<u>TOTAL NET ASSETS</u> - End of Year	<u><u>\$ 424,192</u></u>	<u><u>\$ 453,435</u></u>

CITY OF MCBAIN
WATER FUND

COMPARATIVE STATEMENT OF CASH FLOWS

YEAR ENDED APRIL 30,

	<u>2007</u>	<u>2006</u>
<u>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</u>		
Cash Flows from Operating Activities:		
Cash Received from Customers	\$ 39,907	\$ 35,056
Cash Payments to Suppliers for Goods and Services	(42,114)	(23,248)
Cash Payments to Employees for Services	(2,000)	(2,000)
Other Operating Revenue	2,455	0
	<hr/>	<hr/>
Net Cash Provided by Operating Activities	\$ (1,752)	\$ 9,808
	<hr/>	<hr/>
Cash Flows from Capital and Related Financing Activities:		
Grant Proceeds	\$ 800	\$ 0
Wellhead Protection Expense	(1,600)	(1,600)
	<hr/>	<hr/>
Net Cash Provided (Used) for Capital and Related Financing Activities	\$ (800)	\$ (1,600)
	<hr/>	<hr/>
Cash Flows from Investing Activities:		
Interest Received	\$ 1,989	\$ 1,832
	<hr/>	<hr/>
Net Increase (Decrease) in Cash and Cash Equivalents	\$ (563)	\$ 10,040
	<hr/>	<hr/>
<u>CASH AND CASH EQUIVALENTS</u> - Beginning of Year	125,612	115,572
	<hr/>	<hr/>
<u>CASH AND CASH EQUIVALENTS</u> - End of Year	\$ 125,049	\$ 125,612
	<hr/>	<hr/>

CITY OF MCBAIN
WATER FUND

COMPARATIVE STATEMENT OF CASH FLOWS

YEAR ENDED APRIL 30,

	<u>2007</u>	<u>2006</u>
<u>RECONCILIATION OF OPERATING INCOME</u>		
<u>TO NET CASH PROVIDED BY OPERATING ACTIVITIES:</u>		
Operating Income (Loss)	\$ (30,432)	\$ (27,239)
Adjustments to Reconcile Operating Income		
To Net Cash Provided by Operating Activities		
Depreciation and Amortization	\$ 29,310	\$ 34,704
(Increase) Decrease in Current Assets		
Accounts Receivable	1,040	(94)
Increase (Decrease) in Current Liabilities		
Accounts Payable	(1,670)	2,437
Total Adjustments	\$ 28,680	\$ 37,047
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ (1,752)	\$ 9,808

CITY OF MCBAIN, MICHIGAN

SEWER FUND

COMPARATIVE STATEMENT OF NET ASSETS

APRIL 30,

	<u>2007</u>	<u>2006</u>
<u>ASSETS</u>		
<u>CURRENT ASSETS</u>		
Cash	\$ 47,008	\$ 54,853
Receivables		
Accounts	220	1,260
Total Current Assets	<u>\$ 47,228</u>	<u>\$ 56,113</u>
<u>RESTRICTED ASSETS</u>		
Debt Retirement Account		
Cash	\$ 37,627	\$ 39,457
Property Assessments Receivable	4,309	4,719
Total Restricted Assets	<u>\$ 41,936</u>	<u>\$ 44,176</u>
<u>CAPITAL ASSETS</u>		
Land	\$ 88,703	\$ 88,703
Land Improvements	1,815,233	1,802,536
Buildings	67,921	67,921
Machinery and Equipment	117,130	117,130
Total Capital Assets	<u>\$ 2,088,987</u>	<u>\$ 2,076,290</u>
Less Accumulated Depreciation	<u>(1,056,424)</u>	<u>(1,014,505)</u>
Net Capital Assets	<u>\$ 1,032,563</u>	<u>\$ 1,061,785</u>
TOTAL ASSETS	<u><u>\$ 1,121,727</u></u>	<u><u>\$ 1,162,074</u></u>

CITY OF MCBAIN, MICHIGAN

SEWER FUND

COMPARATIVE STATEMENT OF NET ASSETS

APRIL 30,

	<u>2007</u>	<u>2006</u>
<u>LIABILITIES AND NET ASSETS</u>		
<u>CURRENT LIABILITIES (PAYABLE FROM CURRENT ASSETS)</u>		
Accounts Payable	\$ 1,513	\$ 2,001
Due to Other Governments	0	2,981
Total Current Liabilities (Payable from Current Assets)	<u>\$ 1,513</u>	<u>\$ 4,982</u>
<u>CURRENT LIABILITIES (PAYABLE FROM RESTRICTED ASSETS)</u>		
Accrued Interest Payable	\$ 175	\$ 221
Current Portion of Long-Term Debt	12,000	11,000
Total Current Liabilities (Payable from Restricted Assets)	<u>\$ 12,175</u>	<u>\$ 11,221</u>
<u>LONG-TERM LIABILITIES</u>		
Bonds Payable	<u>\$ 30,000</u>	<u>\$ 42,000</u>
Total Liabilities	<u>\$ 43,688</u>	<u>\$ 58,203</u>
<u>NET ASSETS</u>		
Invested in Capital Assets	\$ 990,563	\$ 1,008,785
Restricted for Debt Service	41,936	44,176
Unrestricted	45,540	50,910
TOTAL NET ASSETS	<u><u>\$ 1,078,039</u></u>	<u><u>\$ 1,103,871</u></u>

CITY OF MCBAIN, MICHIGAN

SEWER FUND

COMPARATIVE STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS

YEARS ENDED APRIL 30,

	<u>2007</u>	<u>2006</u>
<u>OPERATING REVENUES</u>		
Charges for Services	\$ 35,866	\$ 33,798
Miscellaneous	100	0
Total Operating Revenues	<u>\$ 35,966</u>	<u>\$ 33,798</u>
<u>OPERATING EXPENSES</u>		
Clerk's Salary	\$ 2,000	\$ 2,000
Salaries and Wages	6,000	6,000
Office Supplies and Expense	117	271
Audit Fees	900	850
Engineering	0	2,637
Public Utilities	3,781	2,895
Repairs and Maintenance	20,079	14,509
Depreciation	41,919	41,279
Miscellaneous	3,765	3,765
Total Operating Expenses	<u>\$ 78,561</u>	<u>\$ 74,206</u>
Operating Income (Loss)	<u>(42,595)</u>	<u>(40,408)</u>
<u>NONOPERATING REVENUES AND (EXPENSES)</u>		
Current Property Tax Levy	\$ 11,091	\$ 10,667
Sale of Hay	1,743	1,743
Interest Revenue	1,533	1,695
Interest Expense	(2,604)	(3,154)
Total Nonoperating Revenues and (Expenses)	<u>\$ 11,763</u>	<u>\$ 10,951</u>
Net Income (Loss)	\$ (30,832)	\$ (29,457)
Capital Contribution from General Fund	<u>5,000</u>	<u>5,000</u>
Change in Net Assets	\$ (25,832)	\$ (24,457)
<u>TOTAL NET ASSETS</u> - Beginning of Year	<u>1,103,871</u>	<u>1,128,328</u>
<u>TOTAL NET ASSETS</u> - End of Year	<u><u>\$ 1,078,039</u></u>	<u><u>\$ 1,103,871</u></u>

CITY OF MCBAIN, MICHIGAN
SEWER FUND

COMPARATIVE STATEMENT OF CASH FLOWS

YEAR ENDED APRIL 30,

	<u>2007</u>	<u>2006</u>
<u>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</u>		
Cash Flows from Operating Activities:		
Cash Received from Customers	\$ 37,006	\$ 33,659
Cash Payments to Suppliers for Goods and Services	(32,157)	(22,569)
Cash Payments to Employees for Services	(8,000)	(8,000)
	<hr/>	<hr/>
Net Cash Provided (Used) by Operating Activities	\$ (3,151)	\$ 3,090
	<hr/>	<hr/>
Cash Flows from Capital and Related Financing Activities:		
Acquisition and Construction of Capital Assets	\$ (12,697)	\$ (34,236)
Principal Paid on Bonds	(11,000)	(11,000)
Interest Paid on Bonds	(2,650)	(3,200)
Sale of Hay	1,743	1,743
Property Taxes Collected	11,547	11,122
Capital Contribution - General Fund	5,000	5,000
	<hr/>	<hr/>
Net Cash Provided (Used) for Capital and Related Financing Activities	\$ (8,057)	\$ (30,571)
	<hr/>	<hr/>
Cash Flows from Investing Activities:		
Interest Received	\$ 1,533	\$ 1,695
	<hr/>	<hr/>
Net Increase (Decrease) in Cash and Cash Equivalents	\$ (9,675)	\$ (25,786)
	<hr/>	<hr/>
<u>CASH AND CASH EQUIVALENTS</u> - Beginning of Year	94,310	120,096
	<hr/>	<hr/>
<u>CASH AND CASH EQUIVALENTS</u> - End of Year	\$ 84,635	\$ 94,310
	<hr/> <hr/>	<hr/> <hr/>

CITY OF MCBAIN, MICHIGAN
SEWER FUND

COMPARATIVE STATEMENT OF CASH FLOWS

YEAR ENDED APRIL 30,

	<u>2007</u>	<u>2006</u>
<u>RECONCILIATION OF OPERATING INCOME</u>		
<u>TO NET CASH PROVIDED BY OPERATING ACTIVITIES:</u>		
Operating Income (Loss)	\$ (42,595)	\$ (40,408)
Adjustments to Reconcile Operating Income		
To Net Cash Provided by Operating Activities		
Depreciation and Amortization	\$ 41,919	\$ 41,279
(Increase) Decrease in Current Assets		
Accounts Receivable	1,040	(139)
Increase (Decrease) in Current Liabilities		
Accounts Payable	(488)	(195)
Accrued Interest Payable	(46)	(46)
Due to Other Governments	(2,981)	2,981
Due to Other Funds	0	(382)
Total Adjustments	\$ 39,444	\$ 43,498
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ (3,151)	\$ 3,090

CITY OF MCBAIN, MICHIGAN
NONMAJOR GOVERNMENTAL FUNDS

COMBINING BALANCE SHEET
APRIL 30, 2007

	CEMETERY FUND	LAND DEVELOPMENT FUND	CAPITAL OUTLAY EQUIPMENT FUND	TOTALS
<u>ASSETS</u>				
Cash	\$ 9,888	\$ 44,590	\$ 19,567	\$ 74,045
<u>LIABILITIES AND FUND BALANCE</u>				
<u>LIABILITIES</u>				
Accounts Payable	\$ 0	\$ 0	\$ 0	\$ 0
<u>FUND BALANCE</u>				
Unreserved:				
Designated for:				
City Hall Equipment	\$ 0	\$ 0	\$ 19,567	\$ 19,567
Undesignated	9,888	44,590	0	54,478
Total Fund Balance	\$ 9,888	\$ 44,590	\$ 19,567	\$ 74,045
TOTAL LIABILITIES AND FUND BALANCE	\$ 9,888	\$ 44,590	\$ 19,567	\$ 74,045

CITY OF MCBAIN, MICHIGAN
NONMAJOR GOVERNMENTAL FUNDS

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

YEAR ENDED APRIL 30, 2007

	CEMETERY FUND	LAND DEVELOPMENT FUND	CAPITAL OUTLAY EQUIPMENT FUND	TOTALS
<u>REVENUES</u>				
Charges for Services	\$ 1,880	\$ 0	\$ 0	\$ 1,880
Interest and Rents	60	566	67	693
Other Revenue	1,450	8,910	1,000	11,360
Total Revenues	\$ 3,390	\$ 9,476	\$ 1,067	\$ 13,933
<u>EXPENDITURES</u>				
General Government	\$ 25,253	\$ 0	\$ 0	\$ 25,253
Economic Development and Assistance	0	19,058	0	19,058
Capital Outlay	0	0	7,437	7,437
Total Expenditures	\$ 25,253	\$ 19,058	\$ 7,437	\$ 51,748
Excess (Deficiency) of Revenues Over Expenditures	\$ (21,863)	\$ (9,582)	\$ (6,370)	\$ (37,815)
<u>OTHER FINANCING SOURCES (USES)</u>				
Transfers In (Out)	20,000	(10,000)	10,000	20,000
Net Change in Fund Balance	\$ (1,863)	\$ (19,582)	\$ 3,630	\$ (17,815)
<u>FUND BALANCE</u> - Beginning of Year	11,751	64,172	15,937	91,860
<u>FUND BALANCE</u> - End of Year	\$ 9,888	\$ 44,590	\$ 19,567	\$ 74,045

CITY OF MCBAIN, MICHIGAN
CEMETERY FUND
COMPARATIVE BALANCE SHEET

APRIL 30,

	<u>2007</u>	<u>2006</u>
<u>ASSETS</u>		
Cash	\$ 9,888	\$ 11,801
<u>LIABILITIES AND FUND BALANCE</u>		
<u>LIABILITIES</u>		
Accounts Payable	\$ 0	\$ 50
<u>FUND BALANCE</u>		
Unreserved	9,888	11,751
TOTAL LIABILITIES AND FUND BALANCE	\$ 9,888	\$ 11,801

CITY OF MCBAIN, MICHIGAN

CEMETERY FUND

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

BUDGET AND ACTUAL

YEAR ENDED APRIL 30, 2007

WITH COMPARATIVE ACTUAL AMOUNTS FOR YEAR ENDED APRIL 30, 2006

	2007		2006
	BUDGET	ACTUAL	ACTUAL
<u>REVENUES</u>			
Charges for Services			
Grave Openings	\$ 200	\$ 1,880	\$ 1,400
Interest and Rents			
Interest	100	60	183
Other Revenues			
Sale of Cemetery Lots	500	1,450	800
Total Revenues	\$ 800	\$ 3,390	\$ 2,383
<u>EXPENDITURES</u>			
General Government			
Salaries and Wages	\$ 500	\$ 500	\$ 500
Utilities	100	108	98
Audit Fees	300	325	300
Repairs and Maintenance	22,000	24,320	11,180
Miscellaneous	125	0	125
Total Expenditures	\$ 23,025	\$ 25,253	\$ 12,203
Excess (Deficiency) of			
Revenues Over Expenditures	\$ (22,225)	\$ (21,863)	\$ (9,820)
<u>OTHER FINANCING SOURCES (USES)</u>			
Transfers In			
Land Development Fund	\$ 10,000	\$ 10,000	\$ 0
General Fund	10,000	10,000	10,000
Total Other Financing Sources (Uses)	\$ 20,000	\$ 20,000	\$ 10,000
Net Change in Fund Balance	\$ (2,225)	\$ (1,863)	\$ 180
<u>FUND BALANCE</u> - Beginning of Year	11,751	11,751	11,571
<u>FUND BALANCE</u> - End of Year	\$ 9,526	\$ 9,888	\$ 11,751

CITY OF MCBAIN, MICHIGAN

LAND DEVELOPMENT FUND
COMPARATIVE BALANCE SHEET

APRIL 30,

	<u>2007</u>	<u>2006</u>
<u>ASSETS</u>		
Cash	<u>\$ 44,590</u>	<u>\$ 64,172</u>
<u>LIABILITIES AND FUND BALANCE</u>		
<u>LIABILITIES</u>	\$ 0	\$ 0
<u>FUND BALANCE</u>		
Unreserved	<u>44,590</u>	<u>64,172</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 44,590</u>	<u>\$ 64,172</u>

CITY OF MCBAIN, MICHIGAN

LAND DEVELOPMENT FUND

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE

BUDGET AND ACTUAL

YEAR ENDED APRIL 30, 2007

WITH COMPARATIVE ACTUAL AMOUNTS FOR YEAR ENDED APRIL 30, 2006

	<u>2007</u>		<u>2006</u>
	<u>BUDGET</u>	<u>ACTUAL</u>	<u>ACTUAL</u>
<u>REVENUES</u>			
Interest and Rents			
Interest	\$ 250	\$ 566	\$ 707
Sale of Land	0	8,910	0
Total Revenues	\$ 250	\$ 9,476	\$ 707
<u>EXPENDITURES</u>			
Economic Development			
Independent Audit	\$ 350	\$ 325	\$ 300
Property Taxes	4,500	4,356	3,849
Contracted Services	0	932	0
Industrial Park	0	13,144	0
Miscellaneous	200	301	140
Total Expenditures	\$ 5,050	\$ 19,058	\$ 4,289
Excess (Deficiency) of Revenues			
Over Expenditures	\$ (4,800)	\$ (9,582)	\$ (3,582)
<u>OTHER FINANCING SOURCES (USES)</u>			
Transfers In (Out)			
Transfer to Cemetery Fund	(10,000)	(10,000)	0
Net Change in Fund Balance	\$ (14,800)	\$ (19,582)	\$ (3,582)
<u>FUND BALANCE</u> - Beginning of Year	64,172	64,172	67,754
<u>FUND BALANCE</u> - End of Year	\$ 49,372	\$ 44,590	\$ 64,172

CITY OF MCBAIN, MICHIGAN

CAPITAL OUTLAY EQUIPMENT FUND
COMPARATIVE BALANCE SHEET

APRIL 30,

	<u>2007</u>	<u>2006</u>
<u>ASSETS</u>		
Cash	\$ 19,567	\$ 15,937
<u>LIABILITIES AND FUND BALANCE</u>		
<u>LIABILITIES</u>	\$ 0	\$ 0
<u>FUND BALANCE</u>		
Unreserved		
Designated for City Hall Equipment	19,567	15,937
TOTAL LIABILITIES AND FUND BALANCE	\$ 19,567	\$ 15,937

CITY OF MCBAIN, MICHIGAN

CAPITAL OUTLAY EQUIPMENT FUND

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE

BUDGET AND ACTUAL

YEAR ENDED APRIL 30, 2007

WITH COMPARATIVE ACTUAL AMOUNTS FOR YEAR ENDED APRIL 30, 2006

	<u>2007</u>		<u>2006</u>
	<u>BUDGET</u>	<u>ACTUAL</u>	<u>ACTUAL</u>
<u>REVENUES</u>			
Interest and Rents			
Interest	\$ 100	\$ 67	\$ 136
Sales of Assets	0	1,000	0
Total Revenues	\$ 100	\$ 1,067	\$ 136
<u>EXPENDITURES</u>			
General Government			
Independent Audit	\$ 200	\$ 0	\$ 0
Capital Outlay	10,000	7,167	500
Equipment	10,000	270	5,945
Total Expenditures	\$ 20,200	\$ 7,437	\$ 6,445
Excess (Deficiency) of Revenues Over Expenditures	\$ (20,100)	\$ (6,370)	\$ (6,309)
<u>OTHER FINANCING SOURCES (USES)</u>			
Transfers In (Out)			
General Fund	10,000	10,000	10,000
Net Change in Fund Balance	\$ (10,100)	\$ 3,630	\$ 3,691
<u>FUND BALANCE</u> - Beginning of Year	15,937	15,937	12,246
<u>FUND BALANCE</u> - End of Year	\$ 5,837	\$ 19,567	\$ 15,937

CITY OF MCBAIN, MICHIGAN

TAX COLLECTION FUND

COMPARATIVE BALANCE SHEET

APRIL 30,

	<u>2007</u>	<u>2006</u>
<u>ASSETS</u>		
Cash	<u>\$ 6,256</u>	<u>\$ 5,083</u>
<u>LIABILITIES</u>		
Accounts Payable	\$ 0	\$ 105
Due to Other Governments	4,250	4,049
Due to Other Funds		
General Fund	<u>2,006</u>	<u>929</u>
Total Liabilities	<u>\$ 6,256</u>	<u>\$ 5,083</u>

CITY OF MCBAIN, MICHIGAN

TAX COLLECTION FUND

STATEMENT OF CHANGES IN ASSETS AND LIABILITIES

YEAR ENDED APRIL 30, 2007

	BALANCE			BALANCE
	5/1/2006	ADDITIONS	DELETIONS	4/30/2007
<u>ASSETS</u>				
Cash	\$ 5,083	\$ 1,085,890	\$ 1,084,717	\$ 6,256
<u>LIABILITIES</u>				
Accounts Payable	\$ 105	\$ 4	\$ 109	\$ 0
Due to Other Governments	4,049	962,588	962,387	4,250
Due to Other Funds	929	123,298	122,221	2,006
TOTAL LIABILITIES	\$ 5,083	\$ 1,085,890	\$ 1,084,717	\$ 6,256

CITY OF MCBAIN, MICHIGAN

COMPONENT UNITS
COMBINING BALANCE SHEET

APRIL 30, 2007
WITH COMPARATIVE TOTALS FOR APRIL 30, 2006

	DOWNTOWN DEVELOPMENT AUTHORITY	TAX INCREMENT FINANCE AUTHORITY	TOTALS	
			2007	2006
<u>ASSETS</u>				
Cash	\$ 62,678	\$ 203,840	\$ 266,518	\$ 892,248
Investments	0	457,585	457,585	0
Receivables				
Property Taxes	110	5,528	5,638	21,634
Accrued Interest	0	493	493	0
Loans	73,625	509,541	583,166	783,026
Due from Other Funds	2,120	0	2,120	2,120
Due from Other Governments	37	0	37	21,344
TOTAL ASSETS	<u>\$ 138,570</u>	<u>\$1,176,987</u>	<u>\$1,315,557</u>	<u>\$ 1,720,372</u>
<u>LIABILITIES AND FUND BALANCE</u>				
<u>LIABILITIES</u>				
Accounts Payable	\$ 0	\$ 890	\$ 890	\$ 0
Due to Other Funds	0	2,120	2,120	2,120
Due to Other Governments	0	0	0	2,774
Deferred Revenue	73,735	515,069	588,804	802,510
Total Liabilities	\$ 73,735	\$ 518,079	\$ 591,814	\$ 807,404
<u>FUND BALANCE</u>				
Unreserved				
Undesignated	64,835	658,908	723,743	912,968
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 138,570</u>	<u>\$1,176,987</u>	<u>\$1,315,557</u>	<u>\$ 1,720,372</u>

CITY OF MCBAIN, MICHIGAN

COMPONENT UNITS

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

YEAR ENDED APRIL 30, 2007

WITH COMPARATIVE TOTALS FOR YEAR ENDED APRIL 30, 2006

	DOWNTOWN DEVELOPMENT AUTHORITY CONSTRUCTION FUND	TAX INCREMENT FINANCE AUTHORITY	TOTALS	
			2007	2006
<u>REVENUES</u>				
Taxes	\$ 46,373	\$ 227,079	\$ 273,452	\$ 278,278
Grants	0	6,193	6,193	12,807
Interest and Rents	3,307	49,633	52,940	44,971
Other Revenue	9,165	12,260	21,425	720,169
Total Revenues	\$ 58,845	\$ 295,165	\$ 354,010	\$ 1,056,225
<u>EXPENDITURES</u>				
Economic Development	\$ 52,974	\$ 482,177	\$ 535,151	\$ 448,587
Debt Service				
Principal	11,356	0	11,356	10,828
Interest	1,120	0	1,120	1,647
Total Expenditures	\$ 65,450	\$ 482,177	\$ 547,627	\$ 461,062
Excess (Deficiency) of Revenues Over Expenditures	\$ (6,605)	\$ (187,012)	\$ (193,617)	\$ 595,163
<u>FUND BALANCE</u> - Beginning of Year	67,048	845,920	912,968	317,805
<u>FUND BALANCE</u> - End of Year	\$ 60,443	\$ 658,908	\$ 719,351	\$ 912,968

CITY OF MCBAIN, MICHIGAN

DOWNTOWN DEVELOPMENT AUTHORITY
COMPARATIVE BALANCE SHEET

APRIL 30,

	2007	2006
<u>ASSETS</u>		
Cash	\$ 62,678	\$ 67,665
Receivables		
Property Taxes	110	794
Loans Receivable	73,625	82,591
Due from Tax Increment Finance Authority	2,120	2,120
Due from Other Governments	37	37
TOTAL ASSETS	<u>\$ 138,570</u>	<u>\$ 153,207</u>
<u>LIABILITIES AND FUND BALANCE</u>		
<u>LIABILITIES</u>		
Due to Other Governments	\$ 0	\$ 2,774
Deferred Revenue		
Loans	73,625	82,591
Property Taxes	110	794
Total Liabilities	\$ 73,735	\$ 86,159
<u>FUND BALANCE</u>		
Unreserved		
Undesignated	64,835	67,048
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 138,570</u>	<u>\$ 153,207</u>

CITY OF MCBAIN, MICHIGAN

DOWNTOWN DEVELOPMENT AUTHORITY

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

BUDGET AND ACTUAL

YEAR ENDED APRIL 30, 2007

WITH COMPARATIVE ACTUAL AMOUNTS FOR YEAR ENDED APRIL 30, 2006

	2007		2006
	BUDGET	ACTUAL	ACTUAL
<u>REVENUES</u>			
Taxes			
Current Property Tax Levy	\$ 33,000	\$ 46,373	\$ 37,855
Delinquent Property Taxes	5,671	0	5,385
Interest and Rents			
Interest Income	1,000	3,307	3,457
Other Revenue			
Loan Principal Collections	12,328	8,965	7,921
Sale of Land	0	4,392	0
Miscellaneous	1,000	200	0
Total Revenues	\$ 52,999	\$ 63,237	\$ 54,618
<u>EXPENDITURES</u>			
Downtown Development Authority			
Secretary/Treasurer	\$ 2,582	\$ 2,347	\$ 2,582
Legal Fees	3,000	0	2,260
Contracted Administration Services	6,840	0	6,840
Insurance	1,900	2,006	1,788
Audit	900	900	850
Maintenance	5,000	598	4,939
Sidewalks	17,500	3,784	0
Street Lighting	1,000	0	0
Parking	15,000	1,855	3,055
Business Development	20,000	400	1,481
New City Hall	30,000	0	0
Property Taxes	1,500	0	0
Refund of Captured Taxes	2,800	0	0
Capital Outlay - Land	0	40,602	16,123
Miscellaneous	1,667	482	327
Debt Service			
Principal Payments	12,475	11,356	10,828
Interest Expense	0	1,120	1,647
Total Expenditures	\$ 122,164	\$ 65,450	\$ 52,720
Excess (Deficiency) of Revenues			
Over Expenditures	\$ (69,165)	\$ (2,213)	\$ 1,898
<u>FUND BALANCE</u> - Beginning of Year	67,665	67,048	65,150
<u>FUND BALANCE</u> (DEFICIT) - End of Year	\$ (1,500)	\$ 64,835	\$ 67,048

CITY OF MCBAIN, MICHIGAN

TAX INCREMENT FINANCE AUTHORITY
COMPARATIVE BALANCE SHEET

APRIL 30,

	<u>2007</u>	<u>2006</u>
<u>ASSETS</u>		
Cash	\$ 203,840	\$ 824,583
Investments	457,585	0
Receivables		
Property Taxes	5,528	20,840
Accrued Interest	493	0
Loans Receivable	509,541	700,435
Due from Other Governments	0	21,307
TOTAL ASSETS	<u>\$ 1,176,987</u>	<u>\$ 1,567,165</u>
<u>LIABILITIES AND FUND BALANCE</u>		
<u>LIABILITIES</u>		
Accounts Payable	\$ 890	\$ 0
Due to Downtown Development Authority	2,120	2,120
Deferred Revenue		
Federal Grant	0	2,458
Loans	509,541	700,435
Property Taxes	5,528	16,232
Total Liabilities	\$ 518,079	\$ 721,245
<u>FUND BALANCE</u>		
Unreserved	658,908	845,920
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 1,176,987</u>	<u>\$ 1,567,165</u>

CITY OF MCBAIN, MICHIGAN

TAX INCREMENT FINANCE AUTHORITY

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

BUDGET AND ACTUAL

YEAR ENDED APRIL 30, 2007

WITH COMPARATIVE ACTUAL AMOUNTS FOR YEAR ENDED APRIL 30, 2006

	2007		2006
	BUDGET	ACTUAL	ACTUAL
<u>REVENUES</u>			
Taxes			
Property Taxes	\$ 187,360	\$ 227,079	\$ 235,038
Federal Grants	0	6,193	12,807
Interest and Rents			
Interest	24,000	49,633	41,514
Other Revenue			
Revolving Loan Payments	99,318	12,235	351,400
Miscellaneous	7,840	25	360,848
Total Revenues	\$ 318,518	\$ 295,165	\$ 1,001,607
<u>EXPENDITURES</u>			
Economic Development			
Salaries and Wages	\$ 5,163	\$ 4,693	\$ 5,163
Contracted Administrative Services	54,720	61,560	54,720
Legal Fees	15,000	9,341	9,146
Independent Audit	1,000	900	850
Insurance	3,500	3,209	3,208
Taxes	12,000	6,014	29,520
Business Development	34,404	57,552	19,534
Revolving Loan Fund	0	13,491	60,000
Security Cameras	10,000	18,476	70,000
Fire Truck Payment	0	0	77,666
Industrial Park Maintenance	55,000	55,139	34,790
Public Improvements	150,000	109,909	8,355
Feasibility Study	15,000	12,285	25,614
City Hall	90,000	0	0
Equipment Purchase	50,000	3,619	9,000

CITY OF MCBAIN, MICHIGAN

TAX INCREMENT FINANCE AUTHORITY
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL

YEAR ENDED APRIL 30, 2007
WITH COMPARATIVE ACTUAL AMOUNTS FOR YEAR ENDED APRIL 30, 2006

	2007		2006
	BUDGET	ACTUAL	ACTUAL
Sidewalks	20,000	226	680
Incubator Building	500,000	0	0
Refund of Captured Taxes	125,596	125,596	0
Miscellaneous	1,718	167	96
Total Expenditures	\$ 1,143,101	\$ 482,177	\$ 408,342
Excess (Deficiency) of Revenues Over Expenditures	\$ (824,583)	\$ (187,012)	\$ 593,265
<u>FUND BALANCE</u> - Beginning of Year	824,583	845,920	252,655
<u>FUND BALANCE</u> - End of Year	\$ 0	\$ 658,908	\$ 845,920

CITY OF MCBAIN, MICHIGAN
MISSAUKEE COUNTY SANITARY SEWER COLLECTION, TREATMENT AND
DISPOSAL SYSTEM (MCBAIN SYSTEM NO. 1) BONDS PAYABLE
APRIL 30, 2007

TITLE OF ISSUE Missaukee County Sanitary Sewer Collection,
Treatment and Disposal System (McBain System No. 1)
Bonds.

DATE OF ISSUE December 18, 1978

PURPOSE To defray part of the cost of acquiring and constructing
a sanitary sewer collection, treatment and disposal
system to serve the City of McBain.

PAYMENT Principal and interest are payable solely from monies to
be received by the County of Missaukee from the City
of McBain, pursuant to a contract dated March 1, 1978.
For the making of such payments, the City of McBain
has pledged its full faith and credit.

AMOUNT OF ISSUE \$ 340,000

AMOUNT REDEEMED

Current Year	\$ 11,000	
Prior Years	287,000	298,000

OUTSTANDING BALANCE - April 30, 2007 \$ 42,000

<u>DUE DATES</u>	<u>INTEREST RATE</u>	<u>REQUIREMENTS</u>		
		<u>PRINCIPAL</u>	<u>INTEREST</u>	<u>TOTAL</u>
October 1, 2007			\$ 1,050	\$ 1,050
April 1, 2008	5.000%	\$ 12,000	1,050	13,050
October 1, 2008			750	750
April 1, 2009	5.000%	12,000	750	12,750
October 1, 2009			450	450
April 1, 2010	5.000%	13,000	450	13,450
October 1, 2010			125	125
April 1, 2011	5.000%	5,000	125	5,125
		<u>\$ 42,000</u>	<u>\$ 4,750</u>	<u>\$ 46,750</u>

CITY OF MCBAIN, MICHIGAN

STATEMENT OF 2006 TAX ROLL

APRIL 30, 2007

	TAXABLE VALUE	MILLS LEVIED	TAXES ASSESSED	LESS TAXES CAPTURED BY TIFA	LESS TAXES CAPTURED BY DDA	ADJUSTED LEVY	TAXES RETURNED DELINQUENT	TAXES COLLECTED
Missaukee County								
Operating	\$ 20,107,618	4.91780	\$ 98,880	\$ (48,816)	\$ (10,789)	\$ 39,275	\$ 1,304	\$ 37,971
Emergency Services	20,107,618	0.49170	9,885	(4,877)	(1,080)	3,928	188	3,740
Sheriff	20,107,618	1.22930	24,717	(12,193)	(2,701)	9,823	470	9,353
Commission on Aging	20,107,618	0.50000	10,052	(4,959)	(1,099)	3,994	191	3,803
Library	20,107,618	0.23250	4,673	(2,315)	(510)	1,848	89	1,759
McBain Rural Agricultural School								
Operating	14,961,216	18.00000	269,307	0	0	269,307	9,193	260,114
Debt Retirement	20,107,618	4.00000	80,427	0	0	80,427	3,173	77,254
State Education Tax	20,107,618	6.00000	120,643	0	0	120,643	3,704	116,939
Wexford-Missaukee Intermediate								
School District	20,107,618	5.94190	119,472	0	0	119,472	4,714	114,758
City of McBain								
General Fund	20,107,618	12.45170	250,370	(123,503)	(27,363)	99,504	4,761	94,743
Sewer	16,747,892	1.50000	25,122	(10,980)	(3,054)	11,088	564	10,524
Tax Increment Finance Authority			0	207,643	0	207,643	3,213	204,430
Downtown Development Authority			0	0	46,596	46,596	5,401	41,195
Administration Fees			10,131	0	0	10,131	369	9,762
			\$ 1,023,679	\$ 0	\$ 0	\$ 1,023,679	\$ 37,334	\$ 986,345

CITY OF MCBAIN, MICHIGAN

STATEMENT OF 2006 INDUSTRIAL FACILITIES TAX ROLL
APRIL 30, 2007

	TAXABLE VALUATION	MILLS LEVIED	TAXES ASSESSED	LESS TAXES CAPTURED BY TIFA	ADJUSTED LEVY	TAXES RETURNED DELINQUENT	TAXES COLLECTED
Missaukee County							
Operating	\$ 2,819,900	2.45890	\$ 6,934	\$ (6,934)	\$ 0	\$ 0	\$ 0
Emergency Services	2,819,900	0.24585	693	(693)	0	0	0
Sheriff	2,819,900	0.61465	1,733	(1,733)	0	0	0
Commission on Aging	2,819,900	0.25000	705	(705)	0	0	0
Library	2,819,900	0.11625	328	(328)	0	0	0
McBain Rural Agricultural School							
Operating (State Share)	2,819,900	9.00000	25,379	0	25,379	4,109	21,270
Debt Retirement	2,819,900	2.00000	5,640	0	5,640	913	4,727
State Education Tax	2,819,900	6.00000	16,919	0	16,919	1,712	15,207
Wexford-Missaukee Intermediate							
School District (State Share)	2,819,900	2.97095	8,378	0	8,378	1,356	7,022
City of McBain							
General Fund	2,819,900	6.22585	17,556	(17,556)	0	0	0
Sewer	501,500	0.75000	376	(376)	0	0	0
Tax Increment Finance Authority			0	28,325	28,325	4,220	24,105
Administration Fees			846	0	846	125	721
			<u>\$ 85,487</u>	<u>\$ 0</u>	<u>\$ 85,487</u>	<u>\$ 12,435</u>	<u>\$ 73,052</u>

Baird, Cotter and Bishop, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

134 WEST HARRIS STREET CADILLAC, MICHIGAN 49601
PHONE: 231-775-9789 FAX: 231-775-9749
www.bcbcpa.com

May 17, 2007

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Mayor and City Council
City of McBain
McBain, Michigan

We have audited the financial statements of the City of McBain, Michigan, as of and for the year ended April 30, 2007, and have issued our report thereon dated May 17, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the City of McBain's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of McBain's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City of McBain's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Significant deficiencies are described in the accompanying Letter of Significant Deficiencies.

Baird, Cotter and Bishop, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

134 WEST HARRIS STREET CADILLAC, MICHIGAN 49601

PHONE: 231-775-9789 FAX: 231-775-9749

www.bcbcpa.com

May 17, 2007

LETTER OF SIGNIFICANT DEFICIENCIES

To the Mayor and City Council
City of McBain, Michigan

In planning and performing our audit of the financial statements of the governmental activities, business type activities and each major fund of the City of McBain, Michigan as of and for the year ended April 30, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered the City of McBain's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly we do not express an opinion on the effectiveness of the City's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the following deficiencies to be significant deficiencies in internal control.

The relatively small number of people involved in the accounting functions of the City and the design of the accounting system as developed by the state make it difficult to adequately segregate duties. Segregation of accounting duties is a fundamental method of strengthening internal control. However, in deciding what internal control procedures should be implemented, the Council must consider the costs of implementing them and weigh those costs against the benefits to be derived from their implementation.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control structure over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that one of the significant deficiencies described in the accompanying letter of significant deficiencies is a material weakness.

This report is intended for the information of management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

BAIRD, COTTER AND BISHOP, P.C.

Baird, Cotter & Bishop, P.C.

All Michigan governments are required to prepare financial statements in accordance with generally accepted accounting principals (GAAP). This is a responsibility of the City's management. The preparation of financial statements in accordance with GAAP requires internal controls over both (1) recording, processing, and summarizing accounting data (i.e., maintaining internal books and records), and (2) reporting government-wide and fund financial statements, including the related footnotes (i.e., external financial reporting). As is the case with most small and medium-sized entities, the City has historically relied on its independent external auditors to assist in the preparation of the government-wide financial statements and footnotes as part of its external financial reporting process. Accordingly, the City's ability to prepare financial statements in accordance with GAAP is based, in part, on its reliance on its *external* auditors, who cannot, by definition, be considered a part of the government's *internal* controls. This condition was caused by the City's determination that it is more cost effective to outsource the preparation of its annual financial statements to the auditors than to incur the time and expense of obtaining the necessary training and expertise required for the City to perform this task internally.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City's internal control. We believe that the first deficiency described above is a material weakness.

This communication is intended solely for the information and use of the Board and others within the organization. This restriction is not intended to limit the distribution of the report, which is a matter of public record.

BAIRD, COTTER AND BISHOP, P.C.

Baird, Cotter & Bishop, P.C.